

Interim Report on Key Financial Controls of Major Entities

© Commonwealth of Australia 2023

ISSN 1036–7632 (Print)

ISSN 2203–0352 (Online)

ISBN 978-1-76033-815-2 (Print)

ISBN 978-1-76033-816-9 (Online)

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Canberra ACT

25 May 2023

Dear President
Dear Mr Speaker

The Australian National Audit Office has undertaken the interim audit phase of the 2022–23 financial statements audits of major entities in accordance with the authority contained in the *Auditor-General Act 1997*. The report is titled *Interim Report on Key Financial Controls of Major Entities*. I present the report of this audit to the Parliament.

Following its presentation and receipt, the report will be placed on the Australian National Audit Office's website — <http://www.anao.gov.au>.

Yours sincerely



Grant Hehir
Auditor-General

The Honourable the President of the Senate
The Honourable the Speaker of the House of Representatives
Parliament House
Canberra ACT

AUDITING FOR AUSTRALIA

The Auditor-General is head of the Australian National Audit Office (ANAO). The ANAO assists the Auditor-General to carry out his duties under the *Auditor-General Act 1997* to undertake performance audits, financial statement audits and assurance reviews of Commonwealth public sector bodies and to provide independent reports and advice for the Parliament, the Australian Government and the community. The aim is to improve Commonwealth public sector administration and accountability.

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Executive summary

1. The ANAO prepares two reports annually that provide insights at a point in time to the financial statements risks, governance arrangements and internal control frameworks of Commonwealth entities, drawing on information collected during our audits. These reports explain how entities' internal control frameworks are critical to executing an efficient and effective audit and underpin an entity's capacity to transparently discharge its duties and obligations under the *Public Governance, Performance and Accountability Act 2013* (PGPA Act). Deficiencies identified during ANAO audits, posing a significant or moderate risk to entities' ability to prepare financial statements free from material misstatements, are reported.
2. This report is the first of the two reports and focuses on the results of the interim audits, including an assessment of entities' key internal controls, supporting the 2022–23 financial statements audits. This report examines 27 entities, including all departments of state and a number of major Australian government entities. The majority of entities included in the report are selected on the basis of their contribution to the income, expenses, assets and liabilities of the 2022–23 Consolidated Financial Statements (CFS). At the completion of interim audits for the 27 entities included in this report the ANAO noted that key elements of internal control were operating effectively for 12 entities. For the remaining 15 entities, except for particular finding/s outlined in Chapter 3, the key elements of internal control were operating effectively to support the preparation of financial statements that are free from material misstatement.

Summary of audit findings and related issues

Entity internal controls

3. The interim audit phase includes an assessment of the effectiveness of each entity's internal controls as they relate to the risk of misstatement in the financial statements. At the completion of interim audits for the 27 entities included in this report, the key elements of internal control were assessed as operating effectively for 12 entities. For the remaining 15 entities, the key elements of internal control were operating effectively to support the preparation of financial statements that are free from material misstatement, except for particular finding/s outlined in Chapter 3.
4. An analysis of entity compliance with the Commonwealth's finance law and a review of entity risk assessment and internal controls relating to procurement has highlighted that entities utilise a variety of policies, procedures and approaches to manage and monitor procurements.

Machinery of Government changes

5. Machinery of Government (MoG) changes implemented in 2022–23 transferred functions and programs between departments. Two departments of state were established and five departments of state were renamed.
6. Analysis of the MoG changes indicated that entities largely followed the principles of the *Machinery of Government changes: A guide for entities — November 2021* when implementing MoG changes.

Safeguarding financial information from cyber threats

7. The Protective Security Policy Framework (PSPF) contains the Essential Eight mitigation strategies including mandatory and recommended controls intended to strengthen cyber resilience and the capacity of government to mitigate cyber threats. Review of entities implementation and compliance with these strategies noted deterioration in reported maturity levels across some Essential Eight mitigation strategies since ANAO's 2021–22 assessment.

Summary of audit findings

8. A total of 78 findings were reported to the entities included in this report as a result of interim audits, comprising 29 moderate, 47 minor and two legislative findings. This is an overall increase in the number of findings, and a large increase in moderate findings compared to the 2021–22 interim audit results. The 2021–22 interim audit results reported one significant, 14 moderate, 45 minor, and two legislative findings.

9. Sixty-three per cent of all findings and seventy-two per cent of moderate findings relate to the management of IT controls, particularly the management of privileged user access and terminations.

Reporting and auditing frameworks

Summary of developments

10. A revised Australian Auditing Standard ASA 315 *Identifying and Assessing the Risks of Material Misstatement* became effective for 2022–23 financial statements audits. As a result, changes have been made to the ANAO's audit methodology.

11. The ANAO Quality Management Framework addresses the requirements of three new and revised Australian Quality Management Standards, which became effective on 15 December 2022. In November 2022, the ANAO finalised its methodology and framework for considering ethics either as part of a broader performance, financial or performance statements audit, or as an audit of an entity's ethical framework. Audits considering ethics will feature in ANAO audit programs.

12. The ANAO is monitoring national and international developments in sustainability reporting guidance and will continue to contribute to discussions as reporting and assurance standards develop.

Cost of this report

13. The cost to the ANAO of producing this report is approximately \$320,000.

1. Interim audit results and other matters

Chapter coverage

This chapter provides:

- an overview of the ANAO's audit approach to financial statements audits;
- a summary of observations regarding the internal control environments of the entities included in this report;
- observations relating to Machinery of Government changes, compliance with finance law, managing and monitoring procurement, and the safeguarding of financial information from cyber threats; and
- a summary of audit findings identified at the conclusion of the interim audit.

Conclusion

Key to the ANAO's audit process is our assessment of entities' internal control frameworks as they apply to financial reporting. An effective internal control framework provides the ANAO with a level of assurance that entities are able to prepare financial statements that are free from material misstatement. At the completion of interim audits for the 27 entities included in this report, we noted that key elements of internal control were operating effectively for 12 entities. For 15 entities, except for particular finding/s outlined in chapter 3, the key elements of internal control were operating effectively to support the preparation of financial statements that are free from material misstatement.

Accountable authorities have duties under Division 2 of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) that include: promoting the proper use and management of public resources; and reporting to the Minister on significant issues and activities in the entity. In the context of these obligations and a review of entity internal controls, this report includes an analysis of entity compliance with the Commonwealth's finance law. The review highlighted that entities utilise a variety of policies, procedures and approaches to manage and monitor procurements.

Analysis of 2022–23 Machinery of Government (MoG) changes indicated that entities largely followed the principles of the *Machinery of Government changes: A guide for entities — November 2021* when implementing MoG changes.

The Protective Security Policy Framework (PSPF) contains the Essential Eight mitigation strategies and recommends controls intended to strengthen cyber resilience and the capacity of government to mitigate cyber threats. Review of entities' implementation and compliance with these strategies noted deterioration in reported maturity levels across some Essential Eight mitigation strategies since ANAO's 2021–22 assessment.

A total of 78 findings were reported to the entities included in this report as a result of interim audits, comprising 29 moderate, 47 minor and two legislative findings. This is an overall increase in the number of findings, with a large increase in moderate findings, compared to the 2021–22 interim audit results. The 2021–22 interim audit results reported one significant, 14 moderate, 45 minor, and two legislative findings.

Eighty-three per cent of moderate findings continue to be in the areas of: management of IT controls, particularly the management of privileged users, and accounting and control of non-financial assets. These areas warrant further attention by entity management.

Introduction

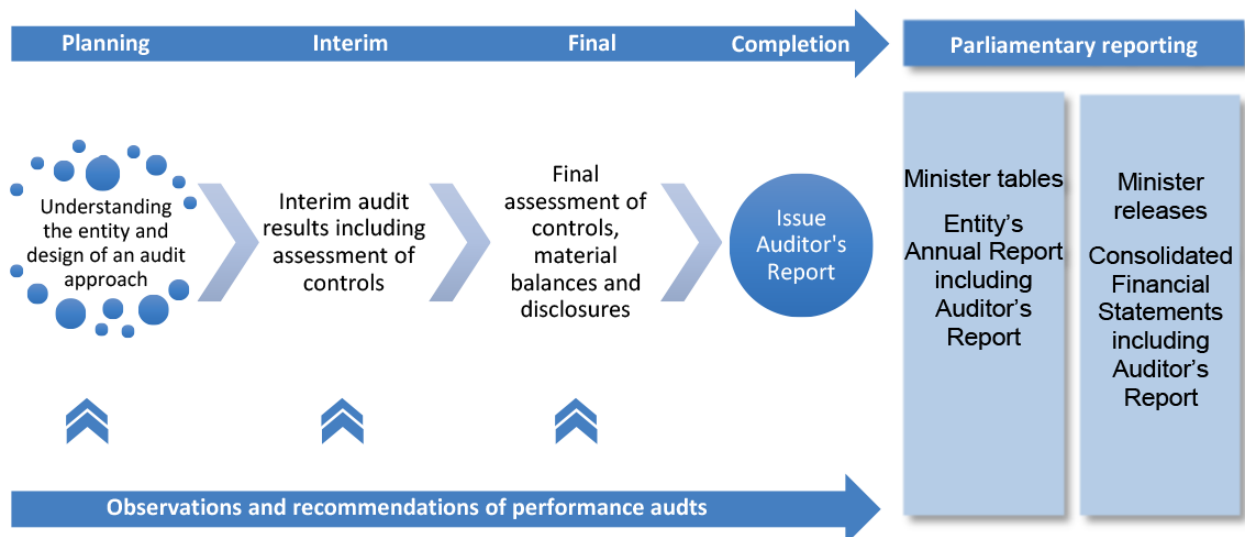
1.1 The ANAO publishes an Annual Audit Work Program (AAWP) which reflects the ANAO's strategy and deliverables for the forward year. The purpose of the AAWP is to inform the Parliament, the public and government sector entities of the ANAO's planned audit coverage for Australian Government entities by way of financial statements audits, performance audits and other assurance activities.

1.2 The financial statements audit coverage, as outlined in the AAWP, includes presenting two reports to the Parliament addressing the outcomes of the financial statements audits of Australian Government entities and the Consolidated Financial Statements of the Australian Government (CFS). These reports provide Parliament with an independent examination of the financial accounting and reporting of Commonwealth public sector entities.

1.3 This report focuses on the results of the interim audits of 27 entities including an assessment of key internal controls supporting the 2022–23 financial statements. The assessment includes a review of the governance arrangements related to entities' financial reporting responsibilities and the design and implementation of key internal controls relating to significant business processes. Where the auditor plans to rely upon key controls for assurance that financial statements are free from material misstatement, the controls are tested for operating effectiveness. Testing of controls during the interim audit phase allows us to form a conclusion on the operating effectiveness of those controls for the period up to the date of testing. During the final phase of the 2022–23 financial statements audit, we complete testing over the operating effectiveness of those controls we intend to rely upon, and controls not assessed at interim. The second report presents the final results of the financial statements audits of the CFS and all Australian Government entities.

1.4 The entities included in this report are those entities that contribute significantly to the three sectors of the CFS: the General Government Sector (GGS), Public Non-Financial Corporation (PFNC) sector and Public Financial Corporation (PFC) sector. A listing of these entities is provided in Appendix 1.

1.5 The ANAO conducts its financial statements audits in four phases: planning, interim, final and completion. Figure 1.1 outlines the key elements of each phase.

Figure 1.1: ANAO financial statements audit process

Source: ANAO data.

1.6 A central element of the ANAO's financial statements audit methodology, and the focus of the planning phase of ANAO audits, is a sound understanding of an entity's environment and internal controls relevant to assessing the risk of material misstatement in the financial statements. This understanding informs the ANAO's audit approach, including the reliance that may be placed on entity systems to produce financial statements that are free from material misstatement.

1.7 In accordance with generally accepted auditing practice, the ANAO accepts a low level of risk that an audit will fail to detect the financial statements are materially misstated. This low level of risk is accepted because it is too costly to perform an audit that is predicated on no level of risk. An understanding of the entity, its environment and its controls helps the ANAO design the required work and respond to risks that bear on financial reporting. The key areas of financial statements risks identified through this planning approach are discussed in chapter 3 for each entity included in this report.

1.8 A key component of understanding the entity and its environment is to understand the governance arrangements established by its accountable authority.¹ Accountable authorities of all Commonwealth entities and companies subject to the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) are required to govern their entity in a way that promotes the proper use and management of public resources, the achievement of the purposes of the entity and the entity's financial sustainability.

1.9 The development and implementation of effective corporate governance arrangements and internal controls should be designed to meet the individual circumstances of each entity. These processes also assist in the orderly and efficient conduct of the entity's business and compliance with applicable legislative requirements, including the preparation of annual financial

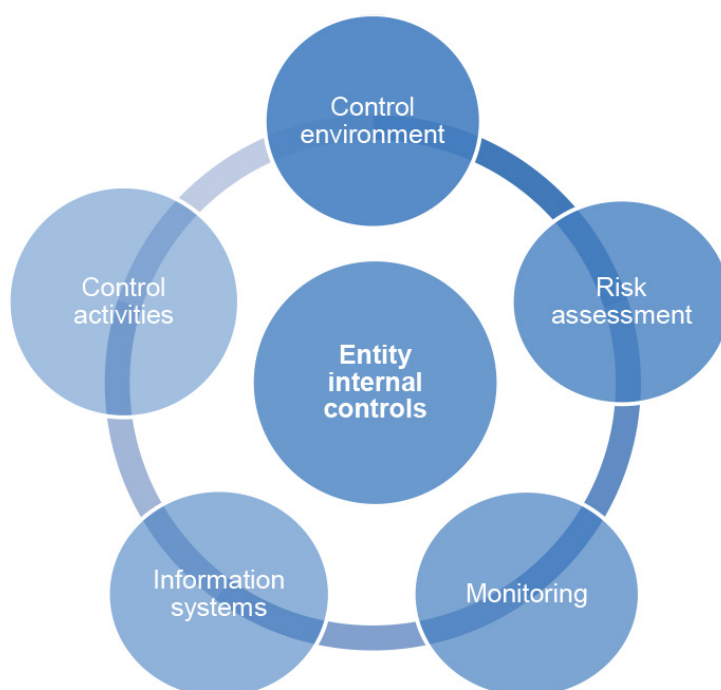
¹ There is a range of different governance structures within Commonwealth entities depending on particular legal status or enabling legislation. The term 'accountable authority', as defined in the PGPA Act, is used in this report to describe the person or body responsible for an entity's governance.

statements that present fairly the entity's financial position, financial performance and cash flows.

Understanding the entity

1.10 The ANAO uses the framework in the Australian Auditing Standards (ASA) 315 *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment* to consider the impact of different elements of an entity's internal controls that support the preparation of financial statements. This approach provides a basis for designing and implementing the audit work program that reflects the ANAO's assessment of the risk of material misstatement. Deficiencies in the internal control framework increase the requirement of the ANAO to perform additional audit work in the final audit phase. Figure 1.2 outlines these elements.

Figure 1.2: Elements of entity internal controls



Source: ASA 315 Identifying and assessing the risk of material misstatement through understanding the entity and its environment, paragraphs 21–26.

1.11 This chapter discusses each of these elements and outlines observations based on the ANAO's review of aspects of each entity's internal controls, relevant to the risk of material misstatement to the financial statements, including the detailed results of the interim audits.

1.12 At the completion of the interim audits for the 27 entities included in this report, the ANAO noted that key elements of internal control were operating effectively for 12 entities. The

remaining 15 entities were assessed as having internal controls that were operating effectively except for a particular finding which is outlined in chapter three.²

1.13 The key elements of internal control for the full financial year will be assessed in conjunction with additional audit testing during the 2022–23 final audits.

Control environment

1.14 The PGPA Act sets out the requirements to establish and maintain systems relating to risk and control. Division 2, section 16 of the PGPA Act states that:

The accountable authority of a Commonwealth entity must establish and maintain:

- a) an appropriate system of risk oversight and management for the entity; and
- b) an appropriate system of internal control for the entity;

including by implementing measures directed at ensuring officials of the entity comply with finance law.^{3,4}

1.15 An effective control environment is underpinned by a fit-for-purpose governance structure. Indicators of an effective governance structure include whether management has established frameworks and processes that promote positive attitudes, awareness and actions concerning the entity's internal controls and their importance in the entity. The main elements reviewed included: governance structures relevant to the preparation of the financial statements; audit committee and assurance arrangements; systems of authorisation; and processes for recording financial transactions.

1.16 All entities included in this report have established audit committees that meet the minimum requirements for audit committees as outlined in PGPA Rule section 17⁵ or section 28⁶. All audit committees consist of a majority of members which were assessed by the entity to be independent. The Chair of the audit committee for all entities is an independent member. All entities have an audit committee charter that is consistent with their obligations under subsection 17(2) of the PGPA Rule.

1.17 Of the 27 entities included in this report, 26 entities have established executive management committees and/or sub-committees that meet at least monthly, which support financial decision making at the strategic and operational levels.⁷ The Department of Home Affairs' executive management committee meets quarterly and as directed by the Chair. Consideration of financial reporting was included on the agendas of 26 entities' executive committees. The Department of Defence reports financial information directly to its Secretary

2 The 15 entities are: Attorney-General's Department, Australian Taxation Office, Departments of: Climate Change, Energy, the Environment and Water; Defence; Education; Employment and Workplace Relations; Finance; Health and Aged Care; Home Affairs; Infrastructure, Transport, Regional Development, Communications and the Arts; Social Services; the Treasury; and Veterans' Affairs, National Disability Insurance Agency and Services Australia.

3 The PGPA Act section 13 defines officials of Commonwealth entities.

4 In accordance with section 8 of the PGPA Act, finance law means the PGPA Act or PGPA Rules, any instrument made under the PGPA Act or Appropriation Acts.

5 For Commonwealth entities.

6 For Commonwealth companies.

7 The ANAO has not audited the effectiveness of the executive management structures.

and Chief of Defence. The financial information provided to the entities' executives was supplemented by non-financial operational information for all entities.

1.18 Clear lines of accountability and reporting are important in establishing a strong internal control environment for the purposes of preparing the financial statements. The involvement of those charged with governance is an important element of these structures. Just as important is ensuring that staff at all levels understand their own role in the control framework. This can be achieved through the issuance of accountable authority instructions and delegation instruments. All entities have established accountable authority instructions and delegations reflecting current business arrangements.

Risk assessment processes

1.19 Section 16 of the PGPA Act sets out an accountable authority's responsibilities regarding the establishment of appropriate risk oversight and management in an entity. An understanding of an entity's process to identify and manage risk is essential to an effective and efficient financial statements audit. A review of this process is done to assist the ANAO to understand how entities identify and manage risks relating to financial statements and assess the risk of material misstatement to an entity's financial statements.

1.20 All entities included in this report have a process to develop and update risk management plans at the organisational and strategic risk levels. In addition, each entity has developed processes for the identification and notification of risks relevant to financial statements preparation either as part of the overall risk management plan, or through a targeted risk identification exercise. The monitoring of risks, and the entities' implementation of risk management strategies, was typically assigned to either an executive committee and/or the audit committee.

Monitoring of controls

1.21 Entities undertake many types of activities as part of their monitoring of control processes, including external reviews, self-assessment processes, post-implementation reviews and internal audits. The level of review of these activities by the ANAO is determined through a risk assessment approach that takes into consideration the nature, extent and timing of each activity and the activities' application to the preparation of the financial statements. All entities included in this report have an ongoing process for monitoring and evaluating internal controls.

Internal audit

1.22 As part of the financial statements audit coverage, internal audit is reviewed to gain an understanding of its role and activities in the entity. Where an internal audit function has been established it can play an important role in providing assurance to the accountable authority that the internal control framework is operating effectively. Entities are encouraged to identify opportunities to leverage internal audit coverage as a means of providing increased assurance to accountable authorities to support their opinion on the entity's financial statements. All entities included in this report have established an effective internal audit function.

1.23 The extent to which the work of internal audit may be able to be used, in a constructive and complementary manner, varies between entities and is more likely to occur where internal audit work is focused on financial controls and legislative compliance. The ANAO is expecting to

rely upon the work of internal audit for three entities in the current year.⁸ If the ANAO is anticipating to use the work of internal audit, in accordance with ASA 610 *Using the Work of Internal Auditors*, the ANAO is required to assess whether the internal audit function has: appropriate organisational status; relevant policies and procedures to support its objectivity; an appropriate level of competence; and whether it applies a systematic and disciplined approach in the execution of its work including quality control.

1.24 When it is determined that the work of internal audit can be used to support an effective audit approach, additional work is performed to confirm its adequacy to support the external audit. This will include confirmation that the scope of the work is appropriate, that there is sufficient evidence to support the conclusions drawn and selected re-performance of internal audit's testing.

Reporting relating to compliance with finance law

1.25 The introduction of the PGPA Act resulted in a move from a compliance-based approach to a principle-based framework for Commonwealth entities. To promote the safe custody and proper use of public resources whilst reducing red tape, a greater emphasis is placed on the robustness of an entity's self-assessment processes, strong governance structures and internal control frameworks to identify risks. A practical example of this is an entity's requirement to report on compliance with finance law.⁹

1.26 From 2015–16, the Department of Finance changed the compliance reporting process to require entities to report only significant non-compliance with the finance law to both the Minister for Finance and the responsible Minister. To support the change in requirements, the Department of Finance issued guidance in relation to reporting of significant non-compliance through the Resource Management Guide 214 *Notification of significant non-compliance with finance law* (PGPA Act, section 19) (RMG 214). The guide outlines factors which may be considered when determining whether significant non-compliance occurred including:

- failure to comply with the duties of accountable authorities (PGPA Act sections 15 to 19);
- serious breaches of the general duties of officials (PGPA Act sections 25 to 29) including any fraudulent activity by officials;
- systemic issues reflecting internal control failings or high-volume instances of non-compliance; and
- non-compliance issues that are likely to impact on the entity's financial sustainability.

1.27 RMG 214 notes that the accountable authority should consider their entity's environment when determining whether instances of non-compliance are significant. In May 2019, RMG 214 was updated with additional guidance in the form of case studies. The case studies highlight the need for entities to consider the number of non-compliance issues in the context of the number of times the function had occurred within the entity. For example, comparing the number of breaches relating to incorrect reporting of contracts on AusTender compared to the number of

⁸ The three entities are: Future Fund Management Agency, NBN Co. Limited and Reserve Bank of Australia.

⁹ In accordance with section 8 of the PGPA Act finance law means the PGPA Act or PGPA Rules, any instrument made under the PGPA Act, or Appropriation Acts.

contracts executed in that year. As part of the interim audits the ANAO considered entities' application of RMG 214.¹⁰

1.28 In addition to notifying the relevant Minister of any significant issues which occur, entities must also report any significant non-compliance in their annual report in line with the PGPA Rule subsection 17AG. The following three entities reported significant non-compliance in the 2021–22 annual reports:

- The Department of Home Affairs reported one significant non-compliance¹¹ relating to misuse of a Commonwealth credit card and falsification of documents. The matter was finalised in November 2021 and related to transactions that occurred between July 2016 and June 2017. The department has limited cash withdrawal access for departmental Commonwealth credit card holders and implemented a Credit Card Compliance Monitoring Program, and the department also continues to require mandatory training for cardholders and review of monthly statements by supervisors.
- The Department of Industry, Science and Resources reported one significant non-compliance¹² relating to compliance with the Commonwealth Procurement Rules. Corrective action is being undertaken by the department to ensure that it demonstrates best practice in management of probity in procurements and grants.
- The Department of Defence reported 14 instances of significant non-compliance¹³. Five cases related to credit card non-compliance, primarily related to credit card misuse; one case related to deception; eight cases related to entitlements. The department has undertaken remedial actions ranging from administrative sanctions or disciplinary action to criminal prosecutions and has undertaken remedial action under the *Defence Force Discipline Act 1982*.

1.29 Entities undertake a range of activities to identify instances of non-compliance and support their assessment of whether identified breaches meet the definition of significant. These activities include self-reporting, internal assurance activities, and questionnaires completed by officers holding delegations. Through these processes, in 2021–22 entities included in this report identified a total of 4,873 instances of non-compliance.¹⁴

1.30 The Department of Home Affairs also advised additional non-compliance with section 23 of the PGPA Act in the Translating and Interpreting Service (TIS) contract centre, when assigning interpreting jobs to interpreters.¹⁵ Subsequent legal advice concluded that the operators engaged

10 RMG 214 does not apply to NBN Co Limited or Snowy Hydro Limited as they are Commonwealth companies. Both entities are required to report significant issues to the Minister in accordance with the PGPA Act and other matters as required under the *Corporations Act 2001*.

11 Department of Home Affairs 2021–22 Annual Report, pg. 250.

12 Department of Industry, Science and Resources 2021–22 Annual Report, pg. 61.

13 Department of Defence 2021–22 Annual Report, pg. 89.

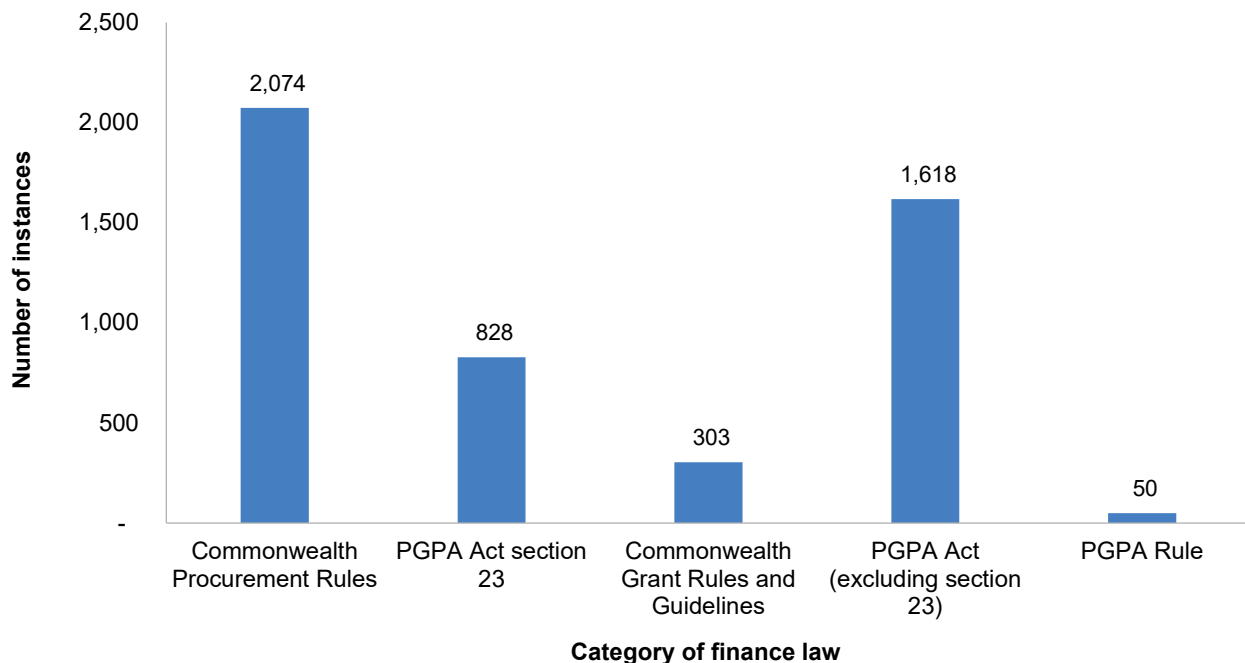
14 This analysis excludes the NBN Co Limited and Snowy Hydro Limited as RMG 214 is not relevant to Commonwealth companies. The analysis also excludes the Department of Climate Change, Energy, the Environment and Water and the Department of Employment and Workplace Relations as these entities came into existence on 1 July 2022. The totals do not include any breaches relating to the Reserve Bank of Australia as the entity did not provide information relating to the number of instances of non-compliance with finance laws.

15 A total of 740,797 instances were identified where legal advice concluded that TIS operators were not prescribed as Officials under the PGPA Act and did not hold delegations under section 23 of the PGPA Act.

as contractors by TIS were not prescribed as Officials under the PGPA Act and did not hold section 23 delegations. The department advised that delegations and Authority to Act instruments have been implemented to allow the exercise of section 23 delegations relating to TIS operators.

1.31 Figure 1.3 provides the ANAO analysis of instances of non-compliance by category as identified by entities in 2021–22.

Figure 1.3: Non-compliance identified by entities in 2021–22



Source: ANAO analysis of data provided by entities.

1.32 Further details of the areas of non-compliance are detailed below.

- The following three entities identified the highest levels of non-compliance with the Commonwealth Procurement Rules: the Department of Agriculture, Fisheries and Forestry (671 instances); the Department of Home Affairs (465 instances); and the Department of Industry, Science and Resources (200 instances).
- Breaches of section 23 of the PGPA Act include failure to obtain appropriate delegate approval prior to entering into contracts and exceeding a delegate's approval. The following three entities identified the highest levels of non-compliance in this area; the Department of Defence (604 instances); the Department of Agriculture, Fisheries and Forestry (57 instances); and the Department of Home Affairs (56 instances).
- Eighty-one per cent of instances of non-compliance with the PGPA Act, excluding section 23, related to breaches of Duty of Care and Diligence under section 25.
- The non-compliance with the PGPA Rule relates to failure to document the approvals to enter into arrangements under section 23 of the PGPA Act.

1.33 RMG 214 identifies that while a matter may not be sufficiently significant to report to the responsible Minister and/or the Minister for Finance, entities are encouraged to review all incidents of non-compliance as these could indicate internal control problems or the beginning of

more systemic issues. The collation and reporting of non-compliance allows audit committees and accountable authorities to assess emerging risks and determine training requirements or changes to procedures required to address trends.

Procurement

1.34 The majority of reported breaches of finance law continues to be in relation to procurement. For this report, the ANAO has considered procurement practices including risk assessments, policies and training of the 27 entities included in this report. Results are included in the following section.

1.35 Under the *Public Governance, Performance and Accountability Act 2013* (PGPA Act), responsibility for the proper use of public resources, including procurement, rests with the accountable authority of each entity. This responsibility includes developing procurement policies, procedures and systems and the conduct of individual procurements. The Public Governance, Performance and Accountability Rule 2014 (PGPA Rule), associated instruments, and policies, establish the requirements and procedures necessary to give effect to the governance, performance and accountability matters as covered by the PGPA Act

1.36 The Commonwealth Procurement Rules (CPRs) are the core of the Australian Government procurement framework. The framework also includes guidance developed by the Department of Finance, Resource Management Guides that simplify and streamline processes and other tools to assist entities in ensuring procurement practices are robust. An appropriate system of risk oversight and management in addition to internal controls is key to ensuring entities are able to comply with relevant requirements.

1.37 Of the entities included in this report, three entities¹⁶ have identified strategic risks that directly relate to procurement and 15¹⁷ entities have determined that there is an entity level risk or risks that have an indirect relationship to procurement. The strategic risks for the remaining nine entities do not relate to procurement.

1.38 All entities have policies and procedures in place to assist staff in undertaking procurements and procurement is included as a topic in the internal audit plan for nine¹⁸ entities. Policies and procedures provided by entities include:

- formal procurement policies and guides, Accountable Authority instructions and procurement toolkits supplemented with practical guidance materials and templates and contract management flowcharts;
- procurement internet pages that include guidance; and

16 The entities are the Australian Taxation Office, Future Fund Management Agency and Reserve Bank of Australia.

17 The entities are the Australian Office of Financial Management, departments of: Climate Change, Energy, the Environment and Water; Defence; Education; Employment and Workplace Relations; Foreign Affairs and Trade; Health and Aged Care; Industry, Science and Resources; Infrastructure, Transport, Regional Development, Communications and the Arts; Prime Minister and Cabinet; Social Services; and the Treasury; National Indigenous Australians Agency, NBN Co. Limited, and Snowy Hydro Limited.

18 Procurement related topics are included in the 2022–23 internal audit program for the departments of: Agriculture, Fisheries and Forestry; Defence; Employment and Workplace Relations; Health and Aged Care; Infrastructure, Transport, Regional Development, Communications and the Arts; Prime Minister and Cabinet; and Veterans' Affairs; National Disability Insurance Agency and Reserve Bank of Australia.

- procurement specific IT applications.

1.39 Entities have also implemented methods to support staff in completing procurements that are considered high risk. These include:

- more detailed risk assessments;
- direct support from a central procurement team;
- obtaining legal advice; and
- obtaining external probity and/or commercial advice

1.40 As outlined in Figure 1.3 above, entities reported non-compliance with procurement rules in 2021–22. A key process in mitigating the risk of non-compliance is the provision of regular training to staff on the requirements of managing and undertaking procurements.

1.41 The following table identifies the 27 entities included in this report and outlines the total number and value of committed procurements reported to commence in 2021–22. The table also includes information on the number of staff in the entity's procurement function and training requirements.

Table 1.1: The number and committed value of contracts (and amendments to existing contracts) reported to start in 2021–22 financial year for entities included in this report

Entity ^a	Total number of contracts	Total value of contracts \$'000	Number of staff in centralised procurement team	Mandatory procurement training
Department of Agriculture, Fisheries and Forestry	5,136	1,263,348	19	Yes ^b
Attorney-General's Department	1,234	179,356	No centralised procurement team ^d	No
Department of Climate Change, Energy, the Environment and Water	1,420	365,736	22	Yes ^c
Snowy Hydro Limited ^f	–	–	7	No
Department of Defence	33,386	43,397,291	No centralised procurement team ^d	No
Department of Veterans' Affairs	2,670	508,743	7	No
Department of Education	1,320	481,523	6	No
Department of Employment and Workplace Relations	2,595	965,036	6	No
Department of Finance	1,200	1,560,380	5	No
Future Fund Management Agency	503	111,385	3	Yes ^b

Entity ^a	Total number of contracts	Total value of contracts \$'000	Number of staff in centralised procurement team	Mandatory procurement training
Department of Foreign Affairs and Trade	1,743	982,794	39	Yes ^e
Department of Health and Aged Care	4,856	4,298,388	8	No
Department of Home Affairs	2,702	3,863,664	24	No
Department of Industry, Science and Resources	2,230	876,097	15	No
Department of Infrastructure, Regional Development, Communications and the Arts	1,734	687,547	6	No
Australian Postal Corporation ^f	–	–	16	Yes ^c
NBN Co. Limited ^f	–	–	66	No
Department of Parliamentary Services	548	140,657	18	No
Department of the Prime Minister and Cabinet	664	114,948	12	No
National Indigenous Australians Agency	614	123,247	6	No
Department of Social Services	886	520,065	5	No
National Disability Insurance Agency ^f	564	38,382	126	Yes ^b
Services Australia	3,819	2,864,475	38	No
Department of the Treasury	775	197,650	6	Yes ^b
Australian Office of Financial Management	30	22,927	No centralised procurement team	No
Australian Taxation Office	1,953	1,877,830	48	No
Reserve Bank of Australia	20	335,000	13	Yes ^c

Note a: Where a MoG has resulted in a change to an entity name without a change to the entity's Australian Business Number (ABN), any contracts published under the previous entity name have been automatically updated to the new entity name as outlined in paragraph 2.6 of Auditor-General Report No.11 2022–23 *Australian Government Procurement Contract Reporting – 2022 Update*.

Note b: Training is mandatory for all staff.

Note c: Training is mandatory for relevant staff including those that have purchasing authority or may exercise a delegation.

Note d: Defence's Commercial Division manages the Defence Commercial Framework and provides commercial advice and procurement services. The Attorney-General's Department has a central team that provides policy advice for procurements.

Note e: Training is mandatory for officers prior to being posted offshore.

Note f: Corporate Commonwealth entities that are not prescribed to comply with the reporting requirements of the CPRs, including reporting procurements on AusTender as outlined in paragraph 2.3 of Auditor-General Report No.11 2022–23 *Australian Government Procurement Contract Reporting – 2022 Update*. None of the 18 Commonwealth companies are prescribed to comply with the CPRs.

Source: ANAO analysis of AusTender data for contracts and amendments, reported to start between 1 July 2021 and 30 June 2022, extracted and provided by the Department of Finance in September 2022.

1.42 Where training is mandatory, training is required to be completed annually for four¹⁹ entities, every two years for two²⁰ entities and every three years or once per posting for two²¹ entities. Effective training to support the development of skills is key to ensuring entities appropriately perform their duties related to procurement.

1.43 The assessment has highlighted that entities utilise a variety of policies, procedures and approaches to manage and monitor procurements to assist the accountable authority in discharging their duties and reducing instances of non-compliance.

Machinery of Government changes

1.44 A Machinery of Government (MoG) change occurs following a Government decision to change the way Commonwealth responsibilities are managed. MoG changes can involve the movement of functions, resources and staff from one agency to another. When implementing MoG changes entities are to apply change management arrangements in a timely and effective manner, ensuring continuity of Government business.²²

1.45 Where MoG changes affect areas such as governance arrangements, appropriations, IT systems, internal controls and financial reporting, the ANAO takes the changes into account in developing its audit approach as part of the annual financial statement audits of Australian Government entities.

Scale of 2022–23 MoG changes

1.46 MoG changes implemented in 2022–23 transferred functions and programs between departments. As part of these changes, two departments of state were established: the

19 Training is required to be undertaken annually for the Department of Agriculture, Fisheries and Forestry; Future Fund Management Agency; National Disability Insurance Agency; and the Department of the Treasury.

20 The Department of Climate Change, Energy, the Environment and Water and Reserve Bank of Australia require training to be completed every two years.

21 Australian Postal Corporation requires training renewal every three years, and the Department of Foreign Affairs and Trade requires training every three years or once per posting.

22 Australian Public Service Commission, Department of Finance, *Machinery of Government changes - A guide for entities*, APSC and Finance, Canberra, 2021, p. 9, available from <https://www.finance.gov.au/sites/default/files/2021-11/Machinery%20of%20Government%20changes%20guide%202021.pdf> [accessed 18 May 2023].

Department of Climate Change, Energy, the Environment and Water and the Department of Employment and Workplace Relations. Additionally, five departments of state were renamed.²³

1.47 Of the 27 entities included in this report, 12 were impacted by MoG changes in 2022–23.²⁴ MoG changes impacting these entities are summarised in Table 1.2.

Table 1.2: Functions transferred in 2022–23 MoG changes

Function(s) transferred	Transferring entity	Receiving entity
Law enforcement and cybercrime	Department of Home Affairs	Attorney-General's Department
Copyright	Department of Infrastructure, Transport, Regional Development and Communications ^a	
National child safety and open government partnership	Department of the Prime Minister and Cabinet	
Environment and water	Department of Agriculture, Water and the Environment ^a	Department of Climate Change, Energy, the Environment and Water ^b
Climate change and energy	Department of Industry, Science, Energy and Resources ^a	
Water (infrastructure)	Department of Infrastructure, Transport, Regional Development and Communications ^a	
Emergency management	Home Affairs	National Emergency Management Authority ^c
Industrial relations	Attorney-General's Department	Department of Employment and Workplace Relations ^b
Employment and vocational training	Department of Employment, Skills and Education ^a	
Pacific Australia Labour Mobility (PALM) scheme	Department of Foreign Affairs and Trade	
Deregulation and data and digital policy	Department of the Prime Minister and Cabinet	Department of Finance
Supply chain resilience and digital technologies	Department of the Prime Minister and Cabinet	Department of Industry, Science and Resources
Domestic, family and sexual violence	Department of Social Services	Domestic, Family and Sexual Violence Commission ^c

- 23 Department of State name changes were: Department of Agriculture, Water and the Environment was renamed Department of Agriculture, Fisheries and Forestry; Department of Education, Skills and Employment was renamed Department of Education; Department of Health was renamed Department of Health and Aged Care; Department of Industry, Science, Energy and Resources was renamed Department of Industry, Science and Resources; and Department of Infrastructure, Transport, Regional Development and Communications was renamed Department of Infrastructure, Transport, Regional Development, Communications and the Arts.
- 24 The entities are Attorney-General's Department and the Departments of: Agriculture, Fisheries and Forestry; Climate Change, Energy, the Environment and Water; Education; Employment and Workplace Relations; Finance; Foreign Affairs and Trade; Home Affairs; Industry, Science and Resources; Infrastructure, Transport, Regional Development, Communications and the Arts; the Prime Minister and Cabinet; and Social Services.

Note a: The transferring entity name in the table reflects the arrangements prior to the Machinery of Government changes effective 1 July 2022.

Note b: Entity was established 1 July 2022.

Note c: Entity is non-material (not in the scope of this report).

Source: ANAO data.

1.48 Transfers of employees between entities impacted by MoG changes are made through a determination under section 72 of the *Public Service Act 1999*. The transfers of ongoing APS employees between the entities included in this report are summarized in Table 1.3.

Table 1.3: Staff transfers between entities included in this report (from 2022–23 MoG changes)

Entity	Ongoing employees transferred out	Ongoing employees transferred in
Department of Agriculture, Fisheries and Forestry	2,220	–
Attorney-General's Department	333	201
Department of Climate Change, Energy, the Environment and Water ^a	–	2,927
Department of Education	2,636	–
Department of Employment and Workplace Relations ^a	–	3,004
Department of Finance	–	72
Department of Foreign Affairs and Trade	46	–
Department of Home Affairs	150	–
Department of Industry, Science and Resources	667	31
Department of Infrastructure, Transport, Regional Development, Communications and the Arts	37	–
Department of the Prime Minister and Cabinet	146	–
Department of Social Services	–	–
Total	6,235	6,235

Note a: Entity was established 1 July 2022.

Source: Public Service (Machinery of Government changes) Section 72 Determinations (including amendments) between entities included in this report. This includes Determinations signed by the former Department of Agriculture, Water and the Environment and the former Department of Industry, Science, Energy and Resources in June 2022.

1.49 In addition to the transfer of staff, appropriations were transferred between entities through determinations made under section 75 of the PGPA Act. The total values of section 75 transfers in 2022–23 relating to entities included in this report are listed in Table 1.4.

Table 1.4: Section 75 transfers from 2022–23 MoG changes^a

Entity	Departmental appropriations transferred in (\$m)	Departmental appropriations transferred out (\$m)	Administered appropriations transferred in (\$m)	Administered appropriations transferred out (\$m)
Department of Agriculture, Fisheries and Forestry	0.4	126.2	–	320.3
Attorney-General's Department	26.7	24.1	11.8	16.7
Department of Climate Change, Energy, the Environment and Water	172.1	–	2,209.2	–
Department of Education	–	257.6	–	2,061.6
Department of Employment and Workplace Relations	288.9	–	2,094.2	–
Department of Finance	10.8	–	–	0.1
Department of Foreign Affairs and Trade	–	7.5	–	14.7
Department of Home Affairs	–	26.0	–	24.6
Department of Industry, Science and Resources	1.2	39.9	–	1,879.4
Department of Infrastructure, Transport, Regional Development, Communications and the Arts	–	6.5	–	8.7
Department of the Prime Minister and Cabinet	–	22.4	–	2.3
Department of Social Services	–	3.5	–	–

Note a: Section 75 transfers listed in this table include appropriation transfers to non-material entities (not within the scope of this report) in line with functions transferred as a result of 2022–23 in MoG changes.

Source: Determinations made under section 75 of the PGPA Act relating to transfer of 2022–23 appropriations.

Implementing MoG changes

1.50 Implementing MoG changes can involve complexity in managing a range of issues. These include: reaching agreement on the staff and appropriations to be transferred; establishing communication mechanisms with both 'gaining' and 'losing' staff; connecting gaining staff to existing IT networks and disconnecting transferred staff from IT systems; arranging accommodation requirements for staff being transferred; and negotiating the most effective way to maintain the delivery of services in both the short and longer term, particularly arrangements for the processing of employee entitlements and program payments.

1.51 The *Machinery of Government changes: A guide for entities* — November 2021 (the Guide), jointly issued by the Australian Public Service Commission and the Department of Finance outlines a set of protocols for entities to observe when implementing changes resulting from a MoG. The principles are:

- taking a whole-of-government approach;
- constructive and open communication with employees; and
- accountability and compliance with legislation and policy.

1.52 The Guide outlines that where a completion date is not specified in relation to a MoG, entities are expected to complete changes within 13 weeks from the date of effect.²⁵ Agency heads are responsible for meeting this deadline and for implementing MoG changes in accordance with the principles.

1.53 Due diligence and change management underpin an effective MoG. The Guide outlines that it is good practice for entities to start MoG planning as early as possible.²⁶ As soon as it becomes clear that a MoG change will occur, affected entities are expected to:

- commence planning activities;
- establish a cross-entity, multi-disciplinary steering committee to oversee implementation;
- consider the appointment of an independent third party to facilitate and advise on the process;
- prepare for an immediate and thorough due diligence exercise; and
- develop a communications strategy to keep employees informed.

1.54 The extent of actions will depend on the size and complexity of the MoG change. Not all actions may be required for entities, depending on the scale of the MoG change.

Observations

1.55 A steering committee appointed to oversee the implementation of MoG changes provides a clear point of contact for the escalation of any issues which may arise. In 2022–23, a steering or implementation committee was appointed by 10 of the 12 entities impacted by MoG changes to manage the MoG process.²⁷ No steering or implementation committee was appointed in two entities that assessed their MoG changes as non-complex and low risk.

1.56 Entities should appoint an independent advisor to manage the process of information exchange between entities where MoG changes are large, sensitive or complex.²⁸ Three entities

25 Australian Public Service Commission, Department of Finance, *Machinery of Government changes - A guide for entities*, APSC and Finance, Canberra, 2021, p. 8, available from <https://www.finance.gov.au/sites/default/files/2021-11/Machinery%20of%20Government%20changes%20guide%202021.pdf> [accessed 18 May 2023].

26 Australian Public Service Commission, Department of Finance, *Machinery of Government changes - A guide for entities*, APSC and Finance, Canberra, 2021, p. 20 [accessed 18 May 2023].

27 Committees were established by the Attorney-General's Department and the Departments of: Agriculture, Fisheries and Forestry; Climate Change, Energy, the Environment and Water; Education; Employment and Workplace Relations; Finance; Home Affairs; Industry, Science and Resources; Infrastructure, Transport, Regional Development, Communications and the Arts; and the Prime Minister and Cabinet.

28 Australian Public Service Commission, Department of Finance, *Machinery of Government changes - A guide for entities*, APSC and Finance, Canberra, 2021, p. 21 [accessed 18 May 2023].

advised that they used an independent advisor in implementing 2022–23 MoG changes: the Department of Agriculture, Fisheries and Forestry; the Department of Climate Change, Energy, the Environment and Water; and the Department of Industry, Science and Resources. The independent advisor was used to assist negotiations, help resolve issues and provide independent advice to the secretaries.

1.57 The Guide provides that transferring entities are to provide receiving entities with due diligence information within 10 business days of the announcement of the MoG.²⁹ For due diligence, receiving entities should also establish measures of success for the implementation of the MoG and review any materials prepared during previous MoG changes to assist with planning.³⁰ Of the 12 entities impacted by MoG changes, 10 advised that they undertook a due diligence assessment in relation to the MoG.³¹ The two entities that did not document a formal due diligence assessment assessed the impact of MoG changes as low risk as the changes involved the transfer of a low numbers of employees.

Implementing MoG changes in a timely manner

1.58 A MoG change must be implemented in a timely manner to ensure continuity of Government business. The Guide provides that where a completion date is not specified in relation to a MoG, entities are expected to complete changes within 13 weeks from the date of effect.³²

1.59 Of the 12 entities impacted by MoG changes, eight entities did not complete changes within the 13-week timeframe outlined in the Guide: the Attorney-General's Department, the Department of Agriculture, Fisheries and Forestry; the Department of Climate Change, Energy, the Environment and Water; the Department of Education; the Department of Employment and Workplace Relations; the Department of Home Affairs; the Department of Infrastructure, Transport, Regional Development, Communications and the Arts; and the Department of Social Services.

Risk management of MoG changes

1.60 The Guide outlines that the application of a risk management approach relating to the impact of the MoG change on an entity would assist in avoiding delays in negotiations.³³

1.61 Performing a risk assessment assists entities in identifying high risk areas which require escalation early to prevent delays to the implementation of MoG changes, for both transferring and receiving entities. Of the 12 entities impacted by MoG changes in 2022–23, eight entities

29 Australian Public Service Commission, Department of Finance, *Machinery of Government changes - A guide for entities*, APSC and Finance, Canberra, 2021, p. 22 [accessed 18 May 2023].

30 Australian Public Service Commission, Department of Finance, *Machinery of Government changes - A guide for entities*, APSC and Finance, Canberra, 2021, p. 23 [accessed 18 May 2023].

31 The entities were Attorney-General's Department and the Departments of: Agriculture, Fisheries and Forestry; Climate Change, Energy, the Environment and Water; Education; Employment and Workplace Relations; Finance; Home Affairs; Industry, Science and Resources; the Prime Minister and Cabinet; and Social Services.

32 Australian Public Service Commission, Department of Finance, *Machinery of Government changes - A guide for entities*, APSC and Finance, Canberra, 2021, p. 8 [accessed 18 May 2023].

33 Australian Public Service Commission, Department of Finance, *Machinery of Government changes - A guide for entities*, APSC and Finance, Canberra, 2021, p. 8 [accessed 18 May 2023].

advised that they performed a formal risk assessment in relation to the overall MoG.³⁴ Four of the twelve entities impacted by MoG changes in 2022–23 advised that they performed an assessment of risks that could impact the financial statements preparation processes. Although this is not a specific requirement in Guide, MoG changes may pose a risk to the timely preparation of complete and accurate financial statements. Performing an analysis of financial statements risks may be useful for entities in future periods.

Conclusion and audit findings relating to implementation of MoG changes

1.62 The information included in the Guide provides entities with a set of principles to follow when they are subject to MoG changes. Best practice would include entities applying the principles of the Guide whether they are the losing agency or the gaining agency. Performing a due diligence review and undertaking detailed risk assessments, from an operational and financial statements perspective, assists entities to identify any new risks that could impact on the timely preparation of complete and accurate financial statements.

1.63 As a result of the interim audit, findings relating to MoG changes were reported to the Department of Education and the Department of Employment and Workplace Relations.³⁵ These findings highlight weaknesses in relation to:

- the configuration of financial and HR systems;
- delays in finalisation of memoranda of understanding with service providers;³⁶
- no established reconciliation processes for appropriation transactions; and
- failure to provide and validate existing employee numbers and movements during the year.

1.64 While findings were reported to two entities, the majority of entities largely complied with the principles of the Guide when implementing the MoG changes in 2022–23.

Safeguarding information from cyber threats

1.65 The Protective Security Policy Framework (PSPF) requires non-corporate Commonwealth entities (NCE) to consider and implement the Australian Signals Directorate's (ASD) Essential Eight mitigation strategies (Essential Eight).³⁷ The initial requirements were defined in 2013 and are now specified in PSPF Policy 10, "*Safeguarding information from cyber threats*" (Policy 10).³⁸ The

34 A formalised risk assessment was performed by the Departments of: Climate Change, Energy, the Environment and Water; Education; Employment and Workplace Relations; Foreign Affairs and Trade; Home Affairs; Industry, Science and Resources; Infrastructure, Transport, Regional Development, Communications and the Arts; and Social Services.

35 Further details of the findings are included in Chapter 3 from paragraph 3.7.12 for the Department of Education and paragraph 3.8.14 for the Department of Employment and Workplace Relations.

36 This issue relates to the Department of Employment and Workplace Relations.

37 Entities are recommended by the Australian Cyber Security Centre to implement eight essential mitigation strategies as a baseline. This baseline, known as the Essential Eight, makes it much harder for adversaries to compromise systems.

38 Attorney-General's Department, *Protective Security Policy Framework, Policy 10 Safeguarding information from cyber threats*, available from <https://www.protectivesecurity.gov.au/information/safeguarding-information-from-cyber-threats/Pages/default.aspx> [accessed 18 May 2023].

Essential Eight is considered the baseline for cyber resilience within the Australian Government and provides advice on measures that entities can implement to mitigate cyber threats.³⁹

1.66 Policy 10 requires each non-corporate Commonwealth entity (NCE) to:

- implement the following Australian Signals Directorate (ASD) Strategies to Mitigate Cyber Security Incidents:⁴⁰
 - application control;⁴¹
 - patching applications;⁴²
 - configure Microsoft Office macro settings;⁴³
 - user application hardening;⁴⁴
 - restricting administrative privileges;⁴⁵
 - patching operating systems;⁴²
 - multi-factor authentication;⁴⁶ and
 - regular backups.⁴⁷
- consider which of the remaining mitigation Strategies from the *Strategies to Mitigate Cyber Security Incidents*⁴⁸ need to be implemented to protect the entity.⁴⁹

39 The Essential Eight strategies were mandated on 15 March 2022.

40 Australian Signals Directorate, *Strategies to Mitigate Cyber Security Incidents*, AU, 2017, available from <https://www.cyber.gov.au/resources-business-and-government/essential-cyber-security/strategies-mitigate-cyber-security-incidents/strategies-mitigate-cyber-security-incidents> [accessed 18 May 2023].

41 The purpose of application control is to protect systems and networks from security vulnerabilities in existing applications and prevent unauthorised applications from running on information and communications technology (ICT) systems.

42 To protect ICT systems from known vulnerabilities, the patching applications and operating system strategies require entities to deploy security patches as soon as possible after being identified by vendors, independent third parties, system managers or users.

43 Effectively configured Microsoft Office macro settings address adversaries' attempts to create macros that can deny users' access to sensitive or classified information.

44 When applications are frequently updated and appropriate security settings applied, it is more difficult for adversaries to exploit any security vulnerabilities they may discover. Disabling unneeded features in Microsoft Office and configuring web browsers to block Flash, Internet advertisements and Java further reduces the risk of malicious content being introduced to entities' ICT environments.

45 Misuse of privileged access can lead to significant security compromises, such as the unauthorised disclosure of information, systems or processes becoming unavailable, or financial impropriety. The restricting administrative privileges strategy includes a requirement for administrative privileges to be regularly reviewed, and restricted only to users who need them and are duly authorised.

46 Multi-factor authentication requires users to provide at least two independent methods to gain access to an ICT system. These may include:

- something a user knows, such as a password;
- something a user has, such a physical token or software-based certificate; and
- something unique to the user, such as their fingerprint.

47 Backups should be protected to ensure that information can be accessed following a cyber security incident.

48 Australian Signals Directorate, *Strategies to Mitigate Cyber Security Incidents*, AU, 2017, available from <https://www.cyber.gov.au/resources-business-and-government/essential-cyber-security/strategies-mitigate-cyber-security-incidents/strategies-mitigate-cyber-security-incidents> [accessed 18 May 2023].

49 The Australian Cyber Security Centre has developed a prioritised list of 37 mitigation strategies, which includes the Essential Eight. NCEs are required to consider the other 29 mitigation strategies in addition to implementing the Essential Eight.

1.67 Since 2013, the ANAO has conducted a series of performance audits focussed on assessing entities' implementation of the PSPF cyber security requirements. These performance audits continue to identify low levels of compliance with mandatory PSPF cyber security requirements and concerns in annual self-assessments by entities. The ANAO has reported its concern that there is no evidence through the series of audits that the regulatory framework had driven sufficient improvement in entities mitigating their cyber security risks since 2013.

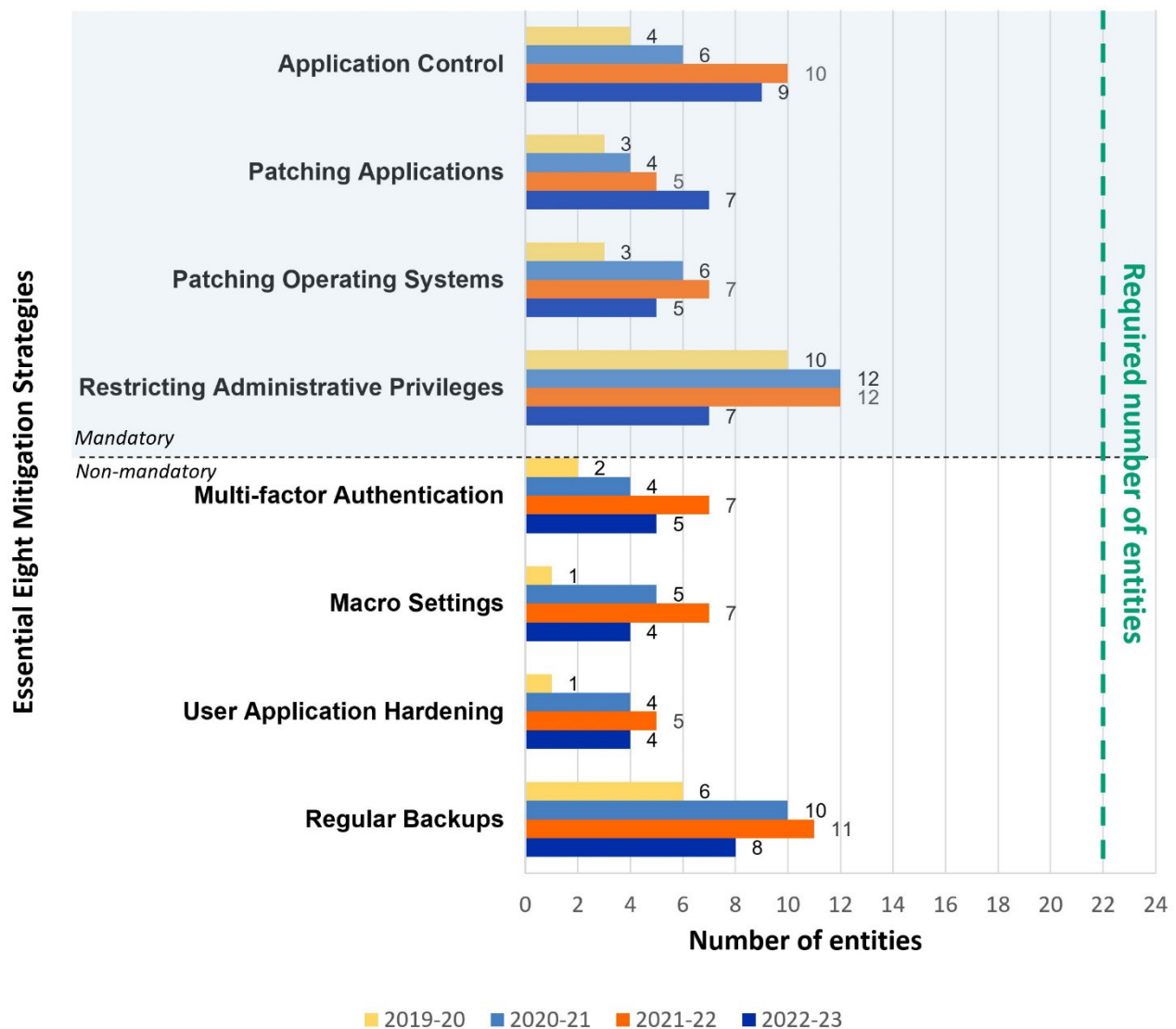
1.68 In 2022–23, the ANAO performed a review of the 2021–22 Policy 10 annual self-assessment as part of its assurance audit program of financial statements. This review focused on the protection of information relevant to the preparation of financial statements, specifically the Financial Management Information System (FMIS) and Human Resource Management Information Systems (HRMIS). Twenty of the 27 entities included in this report are required to report annually against the Policy 10 requirements.⁵⁰ The review was undertaken to assess the evidence supporting the self-assessment and reporting, and to identify cyber security risks that may impact on the preparation of financial statements. The review was based on the October 2020 Policy 10 requirements as these are the requirements that entities were required to implement for the majority of the 2021–22 reporting period.⁵¹ The review consisted of analysis of policy and procedural documentation, testing of some Essential Eight mitigation strategies specific to the FMIS and HRMIS, review of results of sprint assessments and meetings with entity personnel.

1.69 The ANAO noted deterioration in reported maturity levels across some Essential Eight mitigation strategies since ANAO's 2021–22 assessment, particularly with 'Restricting Administrative Privileges' and 'Macro Settings'. Figure 1.4 shows ANAO's analysis of reported maturity levels for each Essential Eight mitigation strategy between 2019–20 and 2022–23. The Essential Eight mitigation strategies within the shaded area of represent the mitigation strategies that were mandatory during the majority of the 2021–22 reporting period.

50 Five entities in this report are corporate Commonwealth entities or Commonwealth companies and are not required to report on compliance with the PSPF. These entities are: Australian Postal Corporation; National Disability Insurance Agency; NBN Co. Limited; Reserve Bank of Australia; and Snowy Hydro Limited. The Departments of: Climate Change, Energy, the Environment and Water and Employment and Workplace Relations were not required to report on compliance with the PSPF as they did not exist at 30 June 2022.

51 Policy 10 requirements were updated in March 2022 which required NCEs to implement ASD's Maturity Level Two Essential Eight mitigation strategies. NCEs were not required to implement the March 2022 requirements until July 2022.

Figure 1.4: Reported Compliance with the PSPF Policy 10 Requirements



Source: ANAO data.

1.70 Seven entities reported improvements in Essential Eight maturity levels across several of the Essential Eight mitigation strategies. Although these entities reported improvements, only two of the seven entities had reported meeting all Policy 10 requirements. The other five entities, similar to the majority of the NCEs, were still progressing their development of the Policy 10 mitigation strategies.

1.71 Seven entities reported lower maturity since last year's assessment. The lower maturity resulted from changes in Policy 10 requirements. Several NCEs reported that the complexity of the changes in Policy 10 requirements has required them to adjust their cyber security uplift programs, resulting in some delays in implementation. Thirteen of the 20 entities reviewed engaged third parties, such as the Australian Cyber Security Centre (ACSC), to assist with their assessments and implementation of security controls. Although some entities commented on the complexity of changes, most entities were still planning on achieving ASD's Maturity Level Three for the Essential Eight mitigation strategies.

1.72 The ANAO found the reported maturity levels for most entities were still significantly below the Policy 10 requirements. Of the 20 entities assessed, two had self-assessed as achieving a Managing maturity level. Both entities were able to demonstrate evidence to support the self-assessments as required by the PSPF.

1.73 The lowest level of compliance was with the 'Macro Settings' and 'User Application Hardening' controls. Although entities had plans to improve 'Macro Settings' and 'User Application Hardening' controls, as at June 2022 the majority of entities were still not achieving a Managing maturity level. The number of applications in entities' systems and identifying all applicable hardening controls for specific applications continues to be the key issue with implementing this mitigation strategy. Some entities chose to implement hardening controls for some applications and are implementing other mitigation strategies to address the related cyber threats for those applications that do not have hardening controls.

1.74 'Macro Settings' was reported to be difficult as users continue to rely heavily on macros to perform business activities. Entities continue to differ in their maturity of addressing the associated risks, with some entities reporting difficulties with monitoring the use of macros in their environments. Entities advised that the deterioration in reported maturity levels since last year was due to challenges with fully integrating the changes in Policy 10 requirements into business practices.

1.75 Only six of the 20 entities reviewed had reported achieving the 'Restricting Administrative Privileges' requirements. Most entities that reported not achieving the requirements had reported the reduction in maturity level being due to the changes in the Policy 10 requirements. The ANAO identified weaknesses in managing privileged users in two of the six entities that had reported achieving the requirements. The weaknesses related to monitoring privileged user activities across FMIS and HRMIS applications and databases. The ANAO noted that the entities' self-assessments did not focus on the FMIS and HRMIS applications, but on the systems hosting these applications.

1.76 The PSPF requires entities to identify and protect people, information and assets that are critical to the ongoing operation of their core business.⁵² Most entities did not view the FMIS and HRMIS applications and financial information as separate critical assets to their computer networks. Those entities conducted their self-assessment at a system or environment level and did not assess the controls required to minimise cyber risks to their FMIS or HRMIS applications.

1.77 Entities which access FMIS and HRMIS applications as part of Software-as-a-Service (SaaS) arrangements reported relying on documentation developed as part of the decision to authorise the system to operate. This documentation may not have been updated in the current period. The PSPF requires this documentation to be developed on new information and communications technology (ICT) systems or when implementing improvements to existing systems.⁵³

52 Attorney-General's Department, *Protective Security Policy Framework, Policy 3 Security planning and risk management*, available from <https://www.protectivesecurity.gov.au/system/files/2023-04/pspf-policy-3-security-planning-and-risk-management.pdf> [Accessed 18 May 2023].

53 Attorney-General's Department, *Protective Security Policy Framework, Policy 11 Robust ICT Systems*, available from <https://www.protectivesecurity.gov.au/system/files/2023-05/pspf-policy11-robust-ict-systems.pdf> [Accessed 18 May 2023].

1.78 Ten of the 20 entities reviewed had information asset registers that identified critical and high-priority systems and information. Five of the 10 entities had specified the FMIS and HRMIS as critical or high-priority information assets. Entities that had not implemented an information asset register used their business continuity, disaster recovery and risk management plans as the basis for prioritising systems and information. Entities use these mechanisms along with their broader enterprise strategies and objectives to help determine investment in cyber security. Most entities had defined a multi-year security improvement program that included cyber security, however, these additional programs did not have a defined budget and costs were being absorbed as part of business-as-usual activities.

1.79 The ANAO found that the number of assessed entities that reported an Ad-hoc or Developing maturity level had not significantly changed since last year's assessment. Although the overall number of entities not meeting the required Policy 10 maturity level remained similar, the number of entities reporting an Ad-hoc maturity level had increased from five per cent to 30 per cent. This was due to changes in the requirements within Policy 10 and the Essential Eight.

1.80 The number of entities that reported as meeting the Managing maturity level (two) has not changed since the 2020–21 PSPF self-assessments. The changes in Policy 10 have caused most NCEs to prioritise the alignment of maturity levels across all Essential Eight mitigation strategies before progressing to the higher maturity level (NCEs are aiming to achieve Maturity Level One across all mitigation strategies prior to progressing to Maturity Level Two).

1.81 The PSPF cyber security requirements have been in place since 2013, with the March 2022 update mandating the implementation of all Essential Eight mitigation strategies. Entities' inability to meet changing requirements indicates a weakness in implementing and maintaining strong cyber security controls over time.

1.82 Previous ANAO audits of entity compliance with PSPF cyber security requirements have not found a significant improvement over time. The work undertaken as part of this review indicates that this pattern continues, with limited improvements.

1.83 The Joint Committee of Public Accounts and Audit (JCPAA) Report 485 *Cyber Resilience* (2020)⁵⁴, Auditor-General Report No.53 2017–18 *Cyber Resilience*⁵⁵ and Auditor-General Report No.32 2020–21 *Cyber Security Strategies of Non-Corporate Commonwealth Entities*⁵⁶ recommended strengthening of arrangements for verifying self-assessment results and accountability for the implementation of mandatory cyber security requirements.

1.84 While entities' compliance with PSPF cyber security requirements remains low, there continues to be the risk of compromise to information relevant to the preparation of financial statements.

54 Joint Committee of Public Accounts and Audit, Report 485, *Cyber Resilience*, available from https://parlinfo.aph.gov.au/parlInfo/download/committees/reportjnt/024465/toc_pdf/Report485CyberResilience.pdf;fileType=application%2Fpdf [accessed on 20 April 2023].

55 Auditor-General Report No.53 2017–18 *Cyber Resilience*, available from <https://www.anao.gov.au/work/performance-audit/cyber-resilience-2017-18> [accessed on 20 April 2023].

56 Auditor-General Report No.32 2020–21 *Cyber Security Strategies of Non-Corporate Commonwealth Entities*, available from <https://www.anao.gov.au/work/performance-audit/cyber-security-strategies-non-corporate-commonwealth-entities> [accessed 20 April 2023].

Interim audit results

1.85 Audit findings are raised in response to the identification of a potential business or financial risk posed to an entity. Often these risks arise from deficiencies within an entity's internal control processes or frameworks. Weaknesses in internal controls increase the possibility that a material misstatement of an entity's financial statements will not be prevented or detected in a timely manner. The ANAO rates audit findings according to the potential business or financial management risk posed to the entity. The rating scale is presented in Table 1.5.

Table 1.5: Findings rating scale

Rating	Description
Significant (A)	Issues that pose a significant business or financial management risk to the entity. These include issues that could result in a material misstatement of the entity's financial statements.
Moderate (B)	Issues that pose a moderate business or financial management risk to the entity. These may include prior year issues that have not been satisfactorily addressed.
Minor (C)	Issues that pose a low business or financial management risk to the entity. These may include accounting issues that, if not addressed, could pose a moderate risk in the future.
Significant legislative breach (L1)	Instances of significant potential or actual breaches of the Constitution; and instances of significant non-compliance with the entity's enabling legislation, legislation that the entity is responsible for administering, and the PGPA Act.
Other non-compliance with legislation (L2)	Other instances of non-compliance with legislation the entity is required to comply with.
Non-compliance with subordinate legislation (L3)	Instances of non-compliance with subordinate legislation, such as the PGPA Rule.

Source: ANAO reporting policy.

1.86 A summary of findings identified at the end of the interim phase in Table 1.6 below. The table includes all findings reported to the 27 entities included in this report.

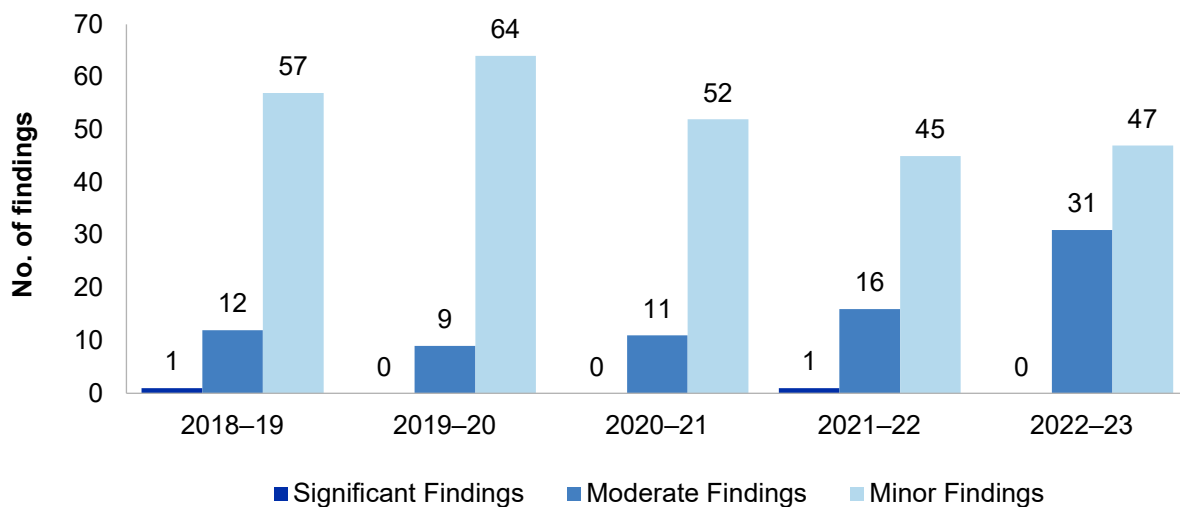
Table 1.6: Audit findings by category for the 2022–23 interim period

Category	Significant	Moderate	Minor	Main areas of weakness
IT control environment	—	21	28	<ul style="list-style-type: none"> security management, particularly management of user access and monitoring of privileged users; and terminations.
Compliance and quality assurance frameworks	—	—	4	<ul style="list-style-type: none"> appropriate quality assurance processes; and risk management frameworks.

Category	Significant	Moderate	Minor	Main areas of weakness
Accounting and control of non-financial assets	—	3	2	<ul style="list-style-type: none"> processes supporting the valuation and impairment of assets; and management and monitoring of assets including, inventory management, identification, disposals and impairment of assets.
Revenue, receivables and cash management	—	1	3	<ul style="list-style-type: none"> treatment of debt; data accuracy and completeness; and cash payment processes.
Human resources financial processes	—	—	1	<ul style="list-style-type: none"> maintenance of employees in the human resources management information system.
Purchases and payables management	—	2	5	<ul style="list-style-type: none"> methodology for military compensation provision; timeliness and completeness of reconciliations; management of accrual processes; and contract management.
Financial statements preparation	—	—	—	<ul style="list-style-type: none"> no weaknesses reported during interim 2022–23 in relation to this finding category.
Other audit findings	—	2	4	<ul style="list-style-type: none"> management of Machinery of Government changes; assessment of eligibility, processing and management of grants; and assignment of benefit expenses.
Legislative breaches	—	2	—	<ul style="list-style-type: none"> breach of section 23 of the PGPA Act; and non-compliance with statutory conditions.
Total	—	31	47	

Source: Compilation of ANAO interim audit findings.

1.87 A summary of all significant, moderate, minor and legislative findings reported at the conclusion of the interim audit phase across the past five financial years is presented in Figure 1.5 below.

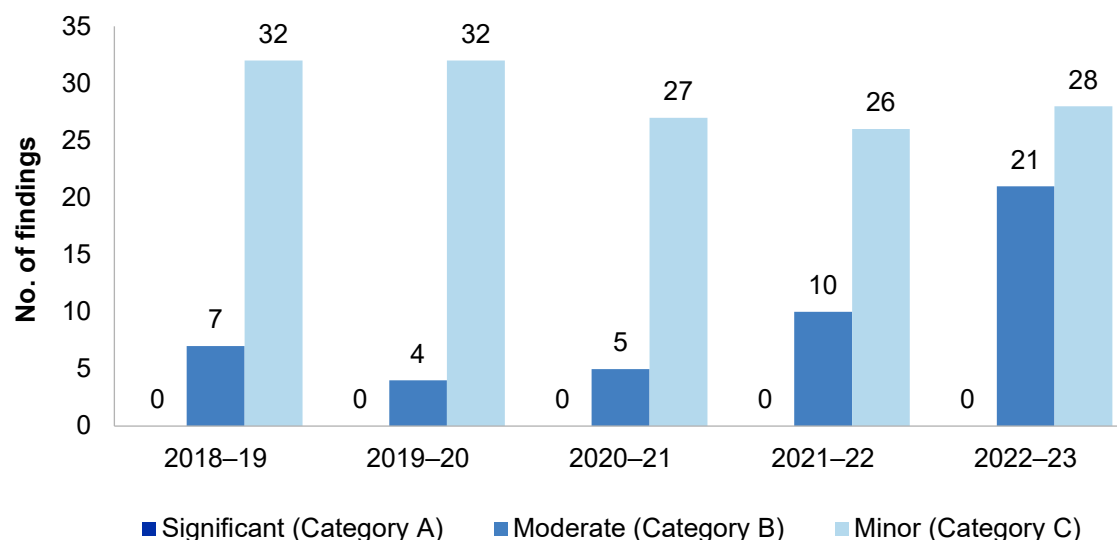
Figure 1.5: Trend in aggregate interim findings 2018–19 to 2022–23

Source: ANAO data.

Information Technology Control Environment

1.88 The review of information systems and related controls is an integral part of an entity's control environment. This section summarises the results from interim tests of the operating effectiveness of general IT controls for each of the entities included in this report.

1.89 Figure 1.6 demonstrates the trends in interim audit findings related to entities' overall IT control environments from 2018–19 to 2022–23. At the time of this report, testing of the operating effectiveness of IT controls had not been completed for was still in progress for three entities.⁵⁷

Figure 1.6: IT control environment interim findings 2018–19 to 2022–23

Source: ANAO data.

⁵⁷ At time of compilation, assessments of the control environments of the Department of Parliamentary Services; Reserve Bank of Australia; and Snowy Hydro Limited were still ongoing. Findings raised in the course of the audit have been reflected in this report.

1.90 Findings related to entities' IT control environments represent 63 per cent of total findings identified during the 2022–23 interim period. IT control environment findings continue to represent the highest proportion of all findings. There were 21 moderate findings reported in 2022–23 compared to 10 moderate findings reported in 2021–22. Further details relating to the moderate findings are detailed in chapter 3 for the Attorney-General's Department and the Departments of: Climate Change, Energy, the Environment and Water; Defence; Education; Employment and Workplace Relations; Finance; Infrastructure, Transport, Regional Development, Communications and the Arts; Social Services; the Treasury; Veterans' Affairs; Home Affairs; and National Disability Insurance Agency and Services Australia.

1.91 The information systems control environment findings reported at the conclusion of the 2021–22 interim audits for entities included in this report have been grouped as follows:

- IT security;
- IT change management; and
- disaster recovery arrangements.

IT Security

1.92 IT security is concerned with protecting an entity's information assets from internal and external threats. It includes controls to prevent or detect unauthorised access to systems, programs and data. In the context of the financial statements audit, the focus is on the financially significant systems and data only. The Protective Security Policy Framework⁵⁸ (PSPF) sets out the government protective security policy and the Australian Cyber Security Centre's Information Security Manual⁵⁹ (ISM) provides guidance on strategies for protecting information and systems from cyber threats.

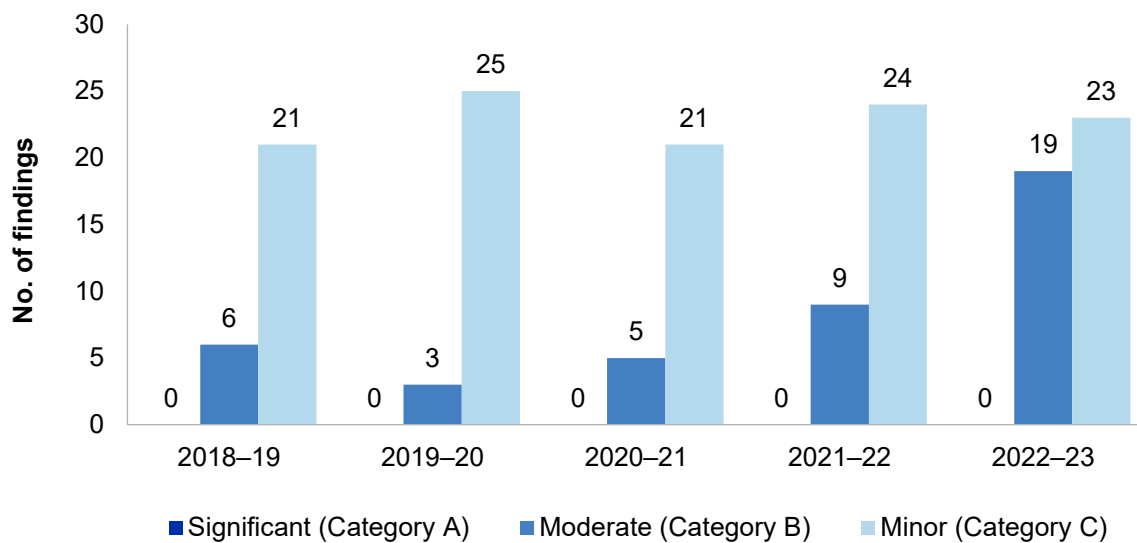
1.93 The key controls areas that address risks relating to IT security and that are assessed as part of the interim audit are:

- IT security governance;
- general and privileged user access; and
- monitoring and reporting.

1.94 Figure 1.7 illustrates the trends in findings observed in entities' IT security arrangements between 2018–19 and 2022–23.

58 Attorney General's Department (AGD), *Protective Security Policy Framework*, AGD, Canberra, 2022, <https://www.protectivesecurity.gov.au/> [Accessed 18 May 2023].

59 Australian Signals Directorate, *Information Security Manual*, Australian Cyber Security Centre, Canberra 2022, <https://www.cyber.gov.au/resources-business-and-government/essential-cyber-security/ism> [Accessed 18 May 2023].

Figure 1.7: IT security interim findings 2018–19 to 2022–23

Note: The comparative numbers in this figure have been updated to include findings previously categorised as IT application controls which related to IT security.

Source: ANAO data.

1.95 The IT security findings represent 86 per cent of all IT-related findings reported in 2022–23. Nineteen moderate findings were reported in the 2022–23 interim audit. Further details of the moderate findings are detailed in chapter 3.⁶⁰

1.96 A review of all IT security findings identified issues in the following areas:

- logging and monitoring of privileged user activity;
- user access management, including approving new user access and performing regular user access reviews;
- removal of user access when it is no longer required;
- password configuration; and
- risk management and monitoring of controls.

1.97 Users with administrative access privileges, commonly referred to as privileged users, are able to make significant changes to IT systems' configuration and operation, bypass critical security settings and access sensitive information. As part of reviewing IT security arrangements, different groups of privileged users were examined, including:

- application administrators, sometimes referred to as super users;
- database administrators;
- system administrators; and
- network or domain administrators.

60 Further details regarding the moderate findings can be found in chapter 3 for the Attorney-General's Department and the Departments of: Climate Change, Energy, the Environment and Water; Defence; Education; Employment and Workplace Relations; Finance; Infrastructure, Transport, Regional Development, Communications and the Arts; Social Services; the Treasury; Veterans' Affairs; and National Disability Insurance Agency and Services Australia.

1.98 To reduce the risks associated with this access, the Australian Signals Directorate (ASD) Information Security Manual (ISM) specifies that privileged user access be appropriately restricted and when provided, that the access is logged, regularly reviewed and monitored. Three moderate and four minor findings related to the logging and monitoring of privileged user access. Two new moderate findings related to issues with the monitoring of privileged user activities at the Department of Climate Change, Energy, the Environment and Water, and National Disability Insurance Agency. Both latter mentioned entities have not established adequate processes for reviewing access performed by privileged users, including documenting the results and outcomes of reviews. The third moderate finding was reported to Services Australia and related to issues with security configurations for managing and logging privileged user activities and the robustness of monitoring and investigation processes. The four minor findings related to issues with the design of controls, such as the scope of access being monitored, completeness and accuracy of audit logs, and the independence of monitoring activities. The risk of inappropriate changes to financially significant systems and data arising from these findings is partially mitigated through alternate controls.

1.99 All users with access to financial systems may have the ability to change financial information, and therefore access should only be granted where it is required for the performance of the role; and should be reviewed whenever the role changes. Two moderate and seven minor findings related to granting and reviewing user access. The moderate findings reported to Department of Climate Change, Energy, the Environment and Water and Department of Veterans' Affairs related to user access reviews not being performed. The seven minor findings related to managing access to payment files, approving of new user access and timeliness of user access reviews.

1.100 Entities must remove or suspend user access on the same day that a user no longer has a legitimate business requirement for its use.⁶¹ Terminating a user account when the user no longer has a requirement to access it, such as upon departure from an entity, can prevent unauthorised use. There were ten moderate findings in this area and an additional five minor findings. The ten moderate findings related to weaknesses in monitoring controls and access being performed by users who no longer required such access. The ten moderate findings were reported to the Attorney-General's Department and the Departments of: Defence; Education; Employment and Workplace Relations; Finance; Home Affairs; Infrastructure, Transport, Regional Development, Communications and the Arts; Social Services; and Veterans' Affairs, and the National Disability Insurance Agency. The five minor findings related to access not being removed when it was no longer required and issues related to the design of controls, such as scope of access being reviewed and controls not being implemented in accordance with policies and procedures.

1.101 The ISM provides guidance on the password requirements for Australian Government systems. In October 2019 the ASD updated this guidance to specify passphrase requirements for instances where multi-factor authentication⁶² is not supported; passphrases used for single-factor

61 Australian Signals Directorate, *Information Security Manual*, Australian Cyber Security Centre, Canberra 2022, p. 37.

62 Multi-factor authentication uses two or more authentication factors to confirm a user's identity. This may include: something a user knows, such as a password; something a user has, such as a Universal 2nd factor security key, physical one-time password token or smartcard and something a user is, such as a fingerprint or their facial geometry.

authentication should be at least four random words with a minimum of 14 characters⁶³. There were six minor findings in this area. Inadequate password controls increase the likelihood of unauthorised access to systems and data.

1.102 Monitoring the performance of security controls is essential to maintaining an entity's security posture. It can contribute to improving the implementation of minimum core and supporting PSPF requirements, the detection of new and emerging security risks, and the identification controls that are not operating as planned. Four moderate findings and one minor finding related to the management and monitoring of security controls. Two moderate findings were reported to the Department of Veterans' Affairs and related to issues with monitoring the implementation and operation of security controls and remediation of security risks. One moderate finding was reported to the Department of Defence and related to issues with controls for managing personally identifiable information, such as tracking access to information and the completion of compliance activities. The fourth moderate finding was reported to the Department of the Treasury and related to issues with managing security risks and managing the design, implementation and operation of associated security controls. The minor finding related to issues with monitoring the performance of controls within third party providers.

1.103 The weaknesses identified within this category increase the risk of unauthorised access to systems and data, or data leakage. Entities should review their management of these areas in light of the recommendations of the ISM and the risks to their operational environment.

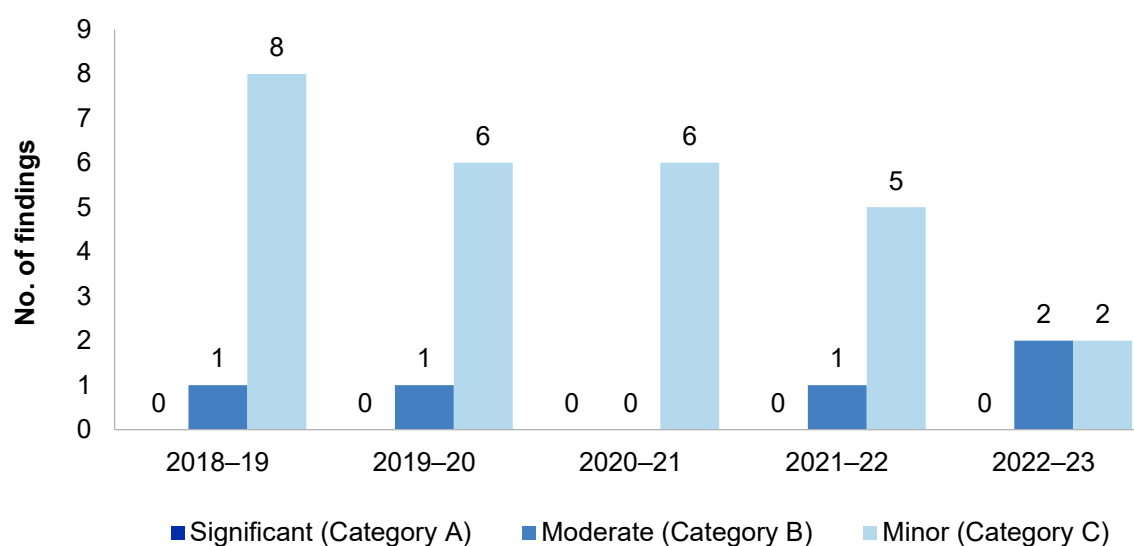
IT change management

1.104 IT change management provides a disciplined approach to making changes to the IT environment. It includes controls to prevent unauthorised changes being introduced, and to reduce the likelihood that normal business operations are interrupted with the implementation of authorised changes.

1.105 Figure 1.8 illustrates the trends in findings identified in entities' IT change management controls between 2018–19 and 2022–23.

63 Australian Signals Directorate, *Information Security Manual*, Australian Cyber Security Centre, Canberra 2023, p. 97.

Figure 1.8: IT change management interim findings 2018–19 to 2022–23



Source: ANAO data.

1.106 Changes to entities' IT environments were managed using standardised processes, usually based on the ITIL Framework.⁶⁴ While still low when compared to IT security, the number of findings in this area still highlights the importance of maintaining and monitoring performance of change management processes.

1.107 Two moderate findings and two minor findings related to weaknesses in the operation of the change management processes were reported as a result of the interim audits. The National Disability Insurance Agency and Services Australia each had moderate findings relating to issues with restricting developer access to production systems and data, and monitoring changes performed by those with access to developer functions. The two minor findings relate to managing developer access to production systems and data, and management of batch processing and reporting data.

1.108 Weaknesses in change management elevate the risk of unauthorised or untested changes to systems during these activities. These weaknesses may also affect the availability or reliability of the overall IT environment. Entities should monitor the operating effectiveness of their IT control environments to mitigate risks.

Disaster recovery arrangements

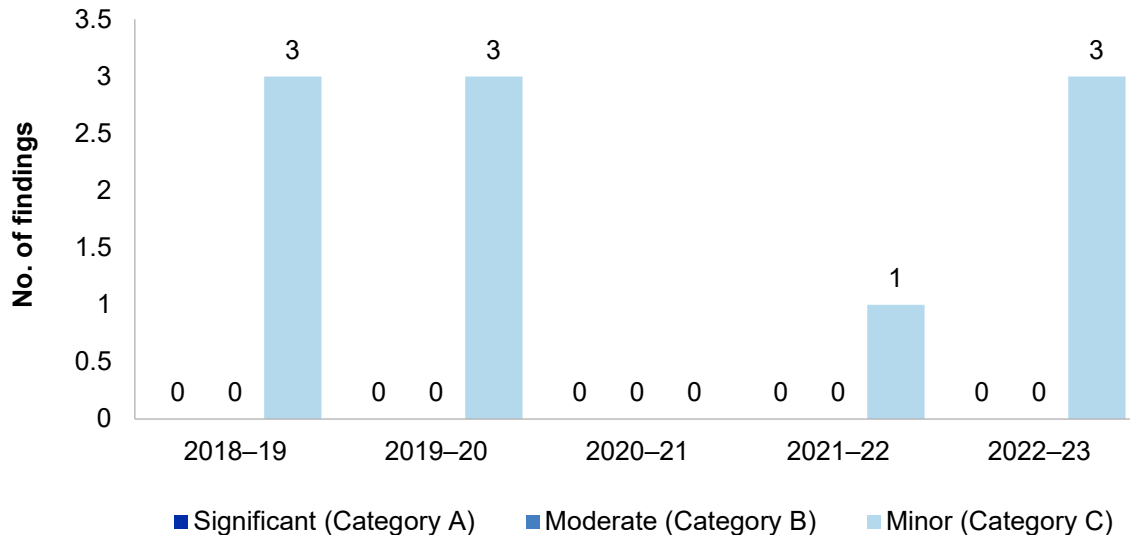
1.109 Disaster recovery is concerned with the resumption of the IT environment including systems and data following an interruption to services. It relies on:

- effective back-up and recovery arrangements, to allow data to be recovered from current versions of key IT systems; and
- disaster recovery planning, including the development, maintenance and testing of a disaster recovery plan to enable IT systems to be recovered in line with defined business requirements.

⁶⁴ ITIL is a framework for designing, implementing, delivering and managing IT services. It was originally developed in the 1990s with the support of the UK Government and has been widely adopted by public and private sector entities world-wide.

1.110 The ANAO assesses entities' disaster recovery arrangements in view of the potential for a disruptive event to impact on financial reporting. Figure 1.9 illustrates the trend for findings identified in entities' disaster recover arrangements between 2018–19 and 2022–23.

Figure 1.9: Disaster recovery interim findings 2018–19 to 2022–23



Source: ANAO data.

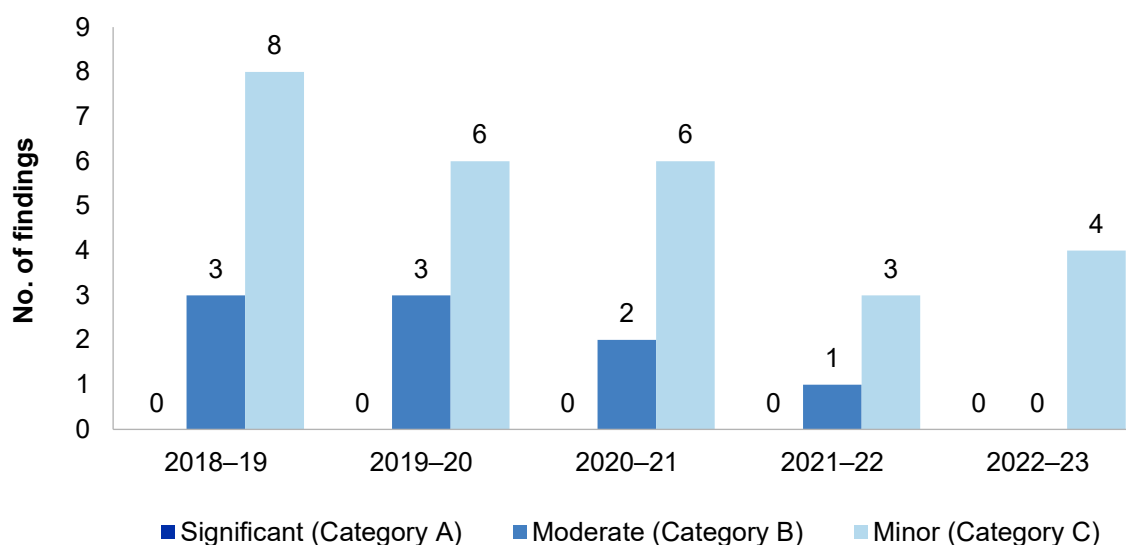
1.111 In all cases where general IT controls testing has been completed, ANAO found that entities undertook regular backups of financially significant data. The three minor findings related to weaknesses in managing service provider performance, management of batch processing and scope of business continuity and disaster recovery arrangements. These findings increase the risk that, in the event of a significant disruption, systems and data will not be recovered within an acceptable timeframe.

1.112 Overall, the majority of IT controls continued to provide reasonable assurance about the operation of controls relied on to support the preparation of financial statements that are free from material misstatement. Consistent with observations in previous years, IT Security, particularly with regard to removal of user access, continues to be an area requiring improvement to address the risk of inappropriate access to systems and data.

Compliance and quality assurance frameworks

1.113 Entities place reliance on internal and external systems, parties and information in decision-making processes. The implementation of effective compliance and quality frameworks and processes, provides assurance over the completeness and accuracy of information and is integral to the preparation of financial statements that are free from material misstatement.

Figure 1.10: Compliance and quality assurance framework interim findings 2018–19 to 2022–23



Source: ANAO data.

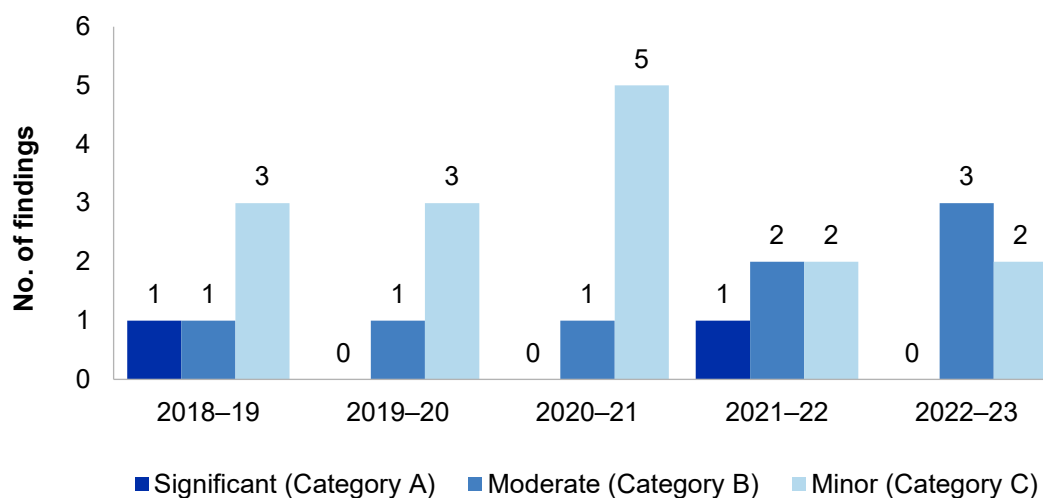
1.114 Three of the minor findings remain unresolved from prior years and relate to quality assurance processes over compliance programs and developing and implementing risk management frameworks. One minor finding remains unresolved from 2018–19 and two have remained unresolved from 2019–20.

1.115 The minor finding raised in 2022–23 is related to quality assurance processes over payment programs.

Accounting and control of non-financial assets

1.116 Entities control a diverse range of non-financial assets on behalf of the Commonwealth, including land and buildings, specialist military equipment, leasehold improvements, infrastructure, plant and equipment, inventories and internally developed software.

Figure 1.11: Accounting and control of non-financial assets interim findings 2018–19 to 2022–23



Source: ANAO data.

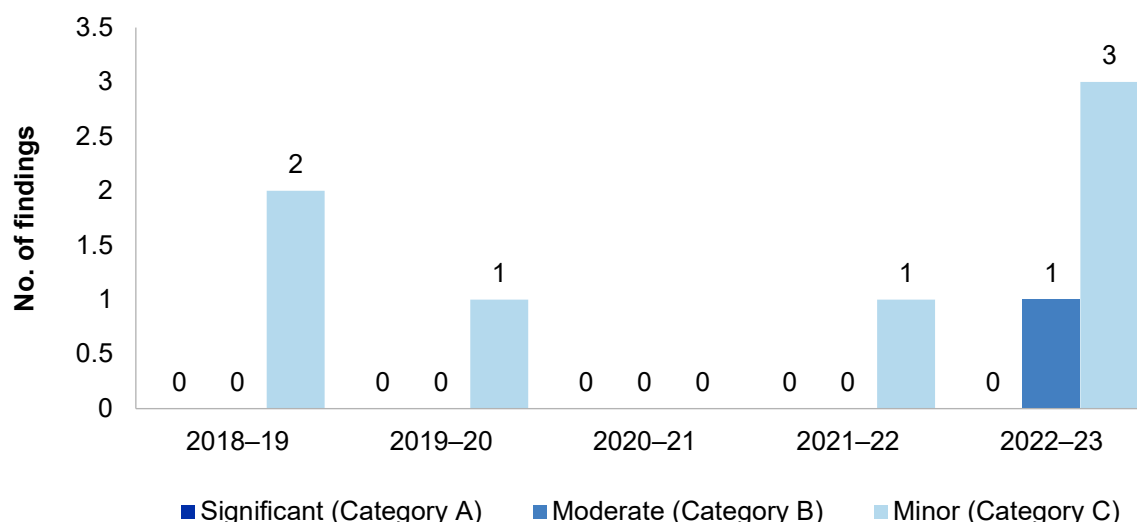
1.117 The significant finding first reported in 2020–21 that relates to the valuation of the Department of Defence’s Specialised Military Equipment (SME) was downgraded to a moderate finding in 2022–23. The moderate finding relating to the assets and inventories disposal of the Department of Defence was first reported in 2021–22 and remains unresolved. The third moderate finding relating to the Department of Health and Aged Care’s impairment of the National Medical Stockpile was first reported in 2021–22 and also remains unresolved.

1.118 Two minor audit findings relating to the intangible assets and impairment were raised in 2021–22 and remain unresolved.

Revenue, receivables and cash management

1.119 Revenue and receivables consist of Parliamentary appropriations, taxation revenue, customs and excise duties and administered levies. Revenue is also generated by entities from the sale of goods and services and a range of other sources. Cash management involves the collection and receipt of public monies and the management of official bank accounts.

Figure 1.12: Revenue, receivables and cash management interim findings 2018–19 to 2022–23



Source: ANAO data.

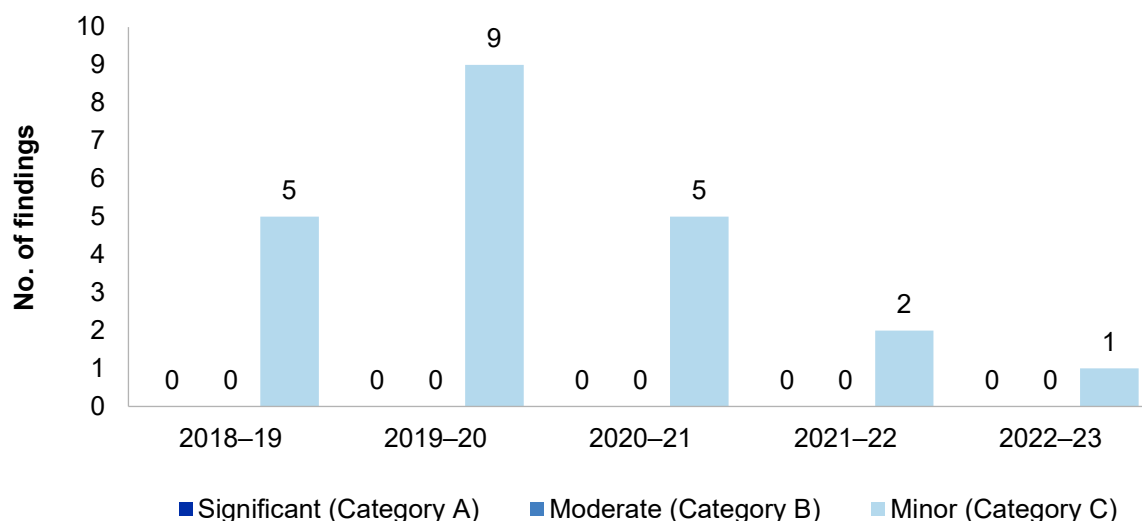
1.120 The unresolved moderate finding was raised during the 2021–22 final audit and relates to the Australian Taxation Office’s treatment of non-pursued debts.

1.121 Two of the minor findings were first reported in 2021–22 and relate to data accuracy and completeness and cash payment processes. The new minor finding raised at interim 2022–23 relates to cost recovery processes.

Human resource financial processes

1.122 Human resources encompass the day-to-day management and administration of employee entitlements and payroll functions. Employee benefits expenditure represents a significant departmental expenditure item for most entities. Employee entitlement liabilities involve estimates and judgements in inputs. It is important for entities to establish robust controls in these areas to support complete and accurate payment and recording of transactions.

Figure 1.13: Human resources financial processes interim findings 2018–19 to 2022–23



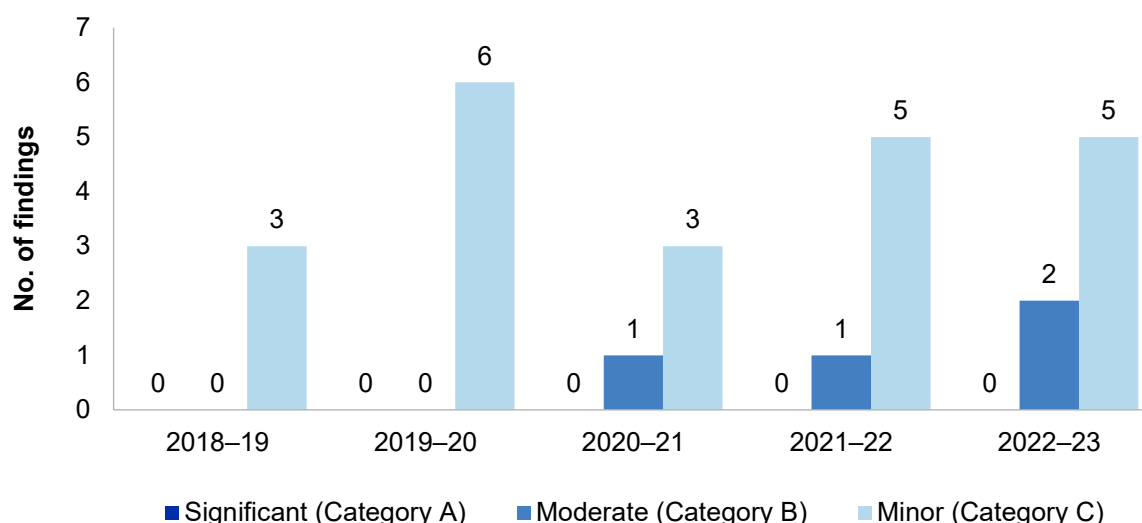
Source: ANAO data.

1.123 The unresolved minor finding was first raised in 2020–21 and relates to maintenance of employees in the human resource management information system.

Purchases and payables management

1.124 Purchases and payables management covers controls and processes that provide management with assurance that payments processed by the entity are complete and accurate. This may include the implementation of appropriate systems of approval or controls designed to ensure that payments processed through the financial management information system are appropriate.

Figure 1.14: Purchases and payables management interim findings 2018–19 to 2022–23



Source: ANAO data.

1.125 The significant finding first reported to the Department of Veteran's Affairs in 2021–22 relating to the methodology for the Military Compensation Provision was downgraded to a

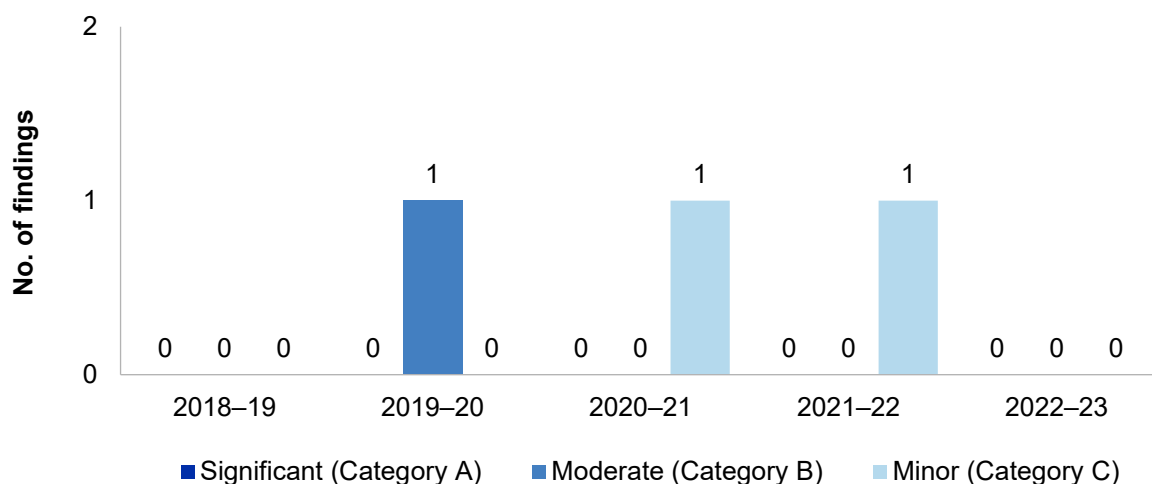
moderate finding during the 2022–23 interim. The unresolved moderate finding was first reported in 2020–21 and relates to weaknesses around the governance of ADF health services at the Department of Defence.

1.126 Four of the five minor audit findings were raised in 2021–22 and remain unresolved. All four findings related to weaknesses surrounding contract management, delegation, accrual processes and the compliance rate of bank charges. One new minor audit finding opened in 2022–23 relates to the liability reconciliation.

Financial statements preparation

1.127 The primary purpose of financial statements is to provide relevant and reliable information to users about a reporting entity's financial position. The preparation of quality financial statements will be evidenced by adherence to a well-defined financial statements preparation timetable with minimal adjustments required to financial statements throughout the audit process. Reporting financial statements preparation findings separately allows the ANAO to specifically identify areas where there are concerns with the presentation and disclosure in the financial statements.

Figure 1.15: Financial statements preparation interim findings 2018–19 to 2022–23



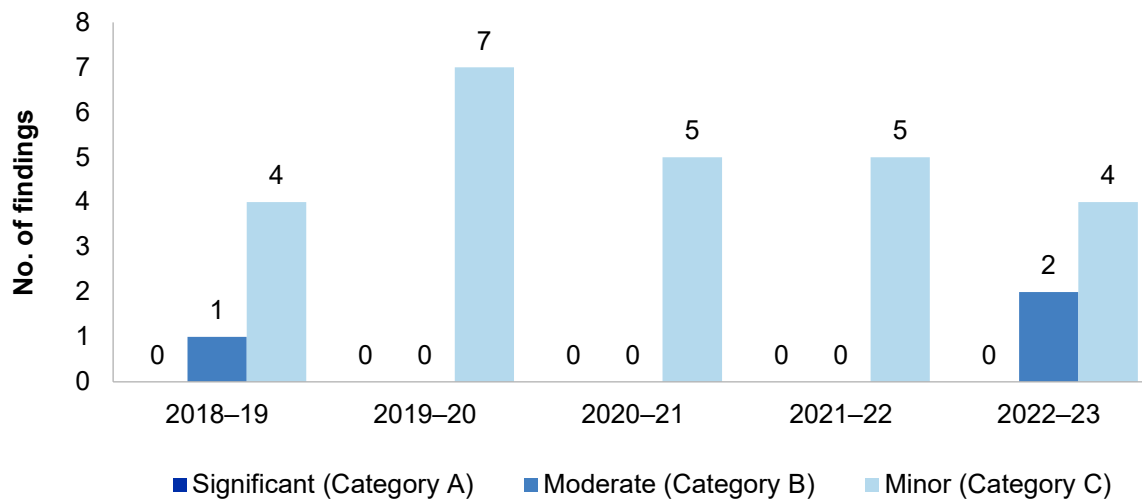
Source: ANAO data.

1.128 There are no unresolved findings relating to financial statements preparation.

Other audit findings

1.129 Other audit findings typically include items relating to the: management and implementation of service level agreements or memoranda of understanding; and updating or maintaining key governance documentation.

Figure 1.16: Other interim findings 2018–19 to 2022–23



Source: ANAO data.

1.130 The two moderate findings raised in 2022–23 relate to the management of Machinery of Government changes for the Department of Education and the Department of Employment and Workplace Relations.

1.131 Three of the four minor findings remain unresolved and were first raised in 2021–22. They relate to weaknesses in the assessment of eligibility, processing and management of grants and the assignment of benefit expenses. The minor finding raised in 2022–23 relates to segregation of duties over journal processing.

2. Reporting and auditing frameworks

Chapter coverage

This Chapter outlines the Australian Government's financial reporting framework, recent changes to the Australian auditing framework relating to the auditor's report on financial statements and emerging areas of audit work. The ANAO's Quality Assurance Framework and Plan 2022–23 and the ANAO Quality Management Framework 2023–24 are also discussed.

Summary of developments

There are no significant changes to accounting standards affecting the Australian Government's financial reporting framework for 2022–23.

A revised Australian Auditing Standard ASA 315 became effective for 2022–23 financial statements audits. As a result, changes have been made to the ANAO's audit methodology.

The ANAO Quality Management Framework (previously referred to as the ANAO Quality Assurance Framework) addresses the requirements of three new and revised Australian Quality Management Standards, which became effective on 15 December 2022. The revised standards introduce a quality management approach that is focused on proactively identifying and responding to risks to quality. The standards include enhanced requirements and focus on governance and leadership, monitoring and remediation.

In November 2022, the ANAO finalised its methodology and framework for considering ethics either as part of a broader performance, financial or performance statements audit, or as an audit of an entity's ethical framework. Audits considering ethics will feature in ANAO audit programs.

The ANAO is monitoring national and international developments in sustainability reporting guidance and will continue to contribute to discussions as reporting and assurance standards develop.

Introduction

2.1 The Australian Government's financial reporting framework is primarily based on standards made independently by the Australian Accounting Standards Board (AASB).

2.2 The AASB bases its accounting standards on the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board. As IFRS are designed for use by private sector and for-profit organisations, the AASB amends the IFRS to reflect significant transactions and events unique to the public sector and not-for-profit private sector. In doing so, the AASB considers standards issued by the International Public Sector Accounting Standards Board (IPSASB).

2.3 The *Public Governance, Performance and Accountability Act 2013* (PGPA Act) requires Commonwealth entities to apply Australian accounting standards when preparing financial statements. In addition to Australian accounting standards the Minister for Finance prescribes additional financial reporting requirements for Commonwealth entities via the Public Governance, Performance and Accountability (Financial Reporting) Rule 2015 (FRR).

2.4 The audits of the financial statements of Commonwealth entities are conducted in accordance with the ANAO Auditing Standards, which are made by the Auditor-General for

Australia under section 24 of the *Auditor-General Act 1997*. The ANAO Auditing Standards incorporate, by reference, the auditing standards made by the Australian Auditing and Assurance Standards Board (AUASB). The AUASB bases its standards on those made by the International Auditing and Assurance Standards Board (IAASB), an independent standard setting board of the International Federation of Accountants.

2.5 The financial reporting and auditing frameworks that applied in 2022–23 are discussed further in Appendix 2 and Appendix 3 of this report.

Changes to the Australian public sector financial reporting and auditing frameworks

Changes in the environment

2.6 The requirements of the revised auditing standard, *ASA 315 Identifying and Assessing the Risks of Material Misstatement* (ASA 315), take effect for audits of the 2022–23 financial statements. The revised standard responds to changes in the financial reporting environment including more complex financial reporting frameworks, technology being used to a greater extent, and entities and their governance structures becoming more complex. In particular, the audit standard requires a more prescriptive focus on entity specific, industry, IT environment and regulatory risks, and the controls that address those risks. The revised standard also emphasises and strengthens the documentation requirements relating to the exercise of professional scepticism by the auditor.

2.7 To address the new requirements, the ANAO has implemented a more detailed risk assessment process to understand risks of material misstatement arising from inherent factors, such as complexity, subjectivity, change, uncertainty, or susceptibility to misstatement due to management bias or other fraud risk factors. This is separate to the consideration of control risk, where the assessment focuses on the entity's control environment. The increased focus on risks arising from the use of IT and the IT controls in place, particularly in smaller, less complex entities, is expected to provide the ANAO with a better whole of sector view on IT risk resulting in the increased likelihood of insights pertaining to IT control environments.

2.8 There is also a more detailed examination of entity's processes and controls around governance, the entity's business model and financial reporting framework. Further, the ANAO's approach includes evaluation of whether: management has created and maintained a culture of honesty and ethical behaviour; the entity's risk assessment process is appropriate to the entity's circumstances; the entity's process for monitoring the system of internal control is appropriate; and whether the entity's information system and communication including the IT environment appropriately supports financial reporting.

2.9 As a result of the change in methodology, the ANAO has strengthened its focus on entities' governance, risk and controls frameworks and expects to be able to identify potential problems early in the audit process to help improve governance, accountability and performance in the public sector. This includes insights into the quality of oversight by the leadership team, and whether risk frameworks have been implemented effectively.

Emerging areas of audit work

2.10 The ANAO continually monitors developments in standard setting and engages with the national and international standard setting bodies in the review and update of existing standards and development of new standards. Outlined below are emerging issues expected to impact the financial reporting and auditing frameworks in the near future.

Auditing ethics

2.11 The importance of ethics in government programs has been highlighted in multiple audits, particularly those examining procurement and grants administration. The lack of adequate documentation and records to support the rationale for decisions made and actions undertaken by audited entities is a consistent theme, and even if the entity is technically compliant with the rules and policy framework, their decision-making can sometimes fall short of the intent behind these frameworks.

2.12 Subsection 15(1) of the PGPA Act provides that the accountable authority of a Commonwealth entity must govern the entity in a way that promotes the proper use of public resources. The PGPA Act defines 'proper' when used in relation to the use or management of public resources as efficient, effective, economical and ethical. In consideration of the obligations set out under the PGPA Act, the ANAO has developed methodology guidance for auditing ethics. The methodology describes specific considerations for auditors when ethics is a component of a performance audit, financial statements audit or performance statements audit.

2.13 The methodology defines the Australian Government Sector ethical framework in the following way.

- The legal framework applicable to the entity being audited. For example, the legislative framework which applies to all Australian Public Service (APS) agencies comprises the finance law and the law governing the operation of the APS including the APS Values and Code of Conduct.
- Activity-specific frameworks for example, key public sector resource management frameworks for specific Australian Government activities such as the Commonwealth Grants Rules and Guidelines and the Commonwealth Procurement Rules.
- Government Policy Orders, for example, orders made by the Minister for Finance under the finance law that specify a policy of the Australian Government that is to apply to the entity being audited.
- Entity-specific frameworks, which may include, the entity's policies, guidelines, and procedures.

2.14 The selection of the appropriate elements of the ethical framework to apply to an audit will depend on the type of entity being audited, the type of audit and any circumstances unique to the activity being audited.

Sustainability reporting

2.15 In September 2022, the Parliament passed two pieces of legislation that formalised Australia's commitments to reduce emissions under the Paris Agreement under the United Nations Framework Convention on Climate Change.⁶⁵

2.16 In December 2022, the Australian Government committed to introducing standardised internationally-aligned sustainability reporting requirements for entities to:

- provide a strong foundation for clear, comparable, and credible climate-related financial reporting that aligns with global practice; and
- improve transparency for customers and investors.⁶⁶

2.17 The Australian Government also announced that the:

- Department of the Treasury will lead the development of a broad sustainable finance framework for Australia, which includes climate-related disclosures⁶⁷; and
- Minister for Finance will lead related work to implement appropriate arrangements for comparable Commonwealth public sector entities and companies to also disclose their exposure to climate-related risk.⁶⁸

2.18 In December 2022, the Department of Finance established the Australian Public Service (APS) Net Zero Unit to support entities and the government to meet its commitment under the Paris Agreement to reduce Australian public sector greenhouse gas emissions to net zero by 2030. The 2030 target will initially apply to non-corporate Commonwealth entities (excluding the Australian Defence Force and security agencies due to their operational needs) with Corporate Commonwealth entities and Commonwealth Companies, at this stage, encouraged to reduce emissions.⁶⁹

2.19 In the 2022–23 Budget, the Department of Climate Change, Energy, the Environment and Water (DCCEEW) announced a complementary Climate Risk and Opportunity Management Program⁷⁰ for non-corporate Commonwealth entities. The program includes a separate climate

65 The Paris Agreement is a legally binding international treaty on climate change effective 4 November 2016. Its overarching goal is to hold 'the increase in the global average temperature to well below 2°C above pre-industrial levels' and pursue efforts 'to limit the temperature increase to 1.5°C above pre-industrial levels.' In recent years, world leaders have stressed the need to limit global warming to 1.5°C by the end of this century. United Nations Climate Change, *The Paris Agreement* [Internet], UNCC, available from <https://unfccc.int/process-and-meetings/the-paris-agreement> [accessed 17 March 2023].

66 Dr J Chalmers (Treasurer), 'More transparency and more investment in cleaner and cheaper energy', media release, Treasury, Canberra, 12 December 2022.

67 Climate-related disclosures will be aligned with the international Task Force of Climate-related Financial Disclosures (TCFD) recommendations, which includes disclosures regarding governance, strategy, risk management and targets and metrics including greenhouse gases. TCFD, *Reporting Climate-Related Financial Information: Critical Introductory Materials* [Internet], TCFD, available from <https://www.fsb-tcfd.org/publications> [accessed 17 March 2023].

68 The Treasury, *Consultation Paper: Climate-related financial disclosure* [Internet], The Treasury, available from https://treasury.gov.au/sites/default/files/2022-12/c2022-314397_0.pdf [accessed 16 January 2023].

69 Department of Finance, *APS Net Zero Emissions by 2030* [Internet], Department of Finance, available from <https://www.finance.gov.au/government/aps-net-zero-emissions-2030> [Accessed 17 March 2023].

70 Department of Climate Change, Energy, the Environment and Water, *Climate Compass – A climate risk management framework for Commonwealth agencies* [Internet], DCCEEW, available from <https://www.dcceew.gov.au/climate-change/policy/adaptation/publications/climate-compass-climate-risk-management-framework> [Accessed 17 March 2023].

disclosure method for departments based on the Australian public sector Climate Risk Disclosure Framework. DCCEEW is currently engaging with stakeholders with a view to finalise the framework in 2023.⁷¹

2.20 In March 2023, the ANAO established a working group to develop a multi-year Climate Change and Environment Audit Strategy (the strategy). The ANAO intends to build consideration of climate risks into its audit planning process across all audit products. The strategy will allow the ANAO to produce a coordinated body of work to assess progress towards Australia's commitment to address climate change risk. The strategy will consider risks to the Australian government in achieving its international obligations, inward looking risk to entities and lessons from international supreme audit institutions.

Quality Assurance Framework and Reporting

ANAO Quality Assurance Framework

2.21 The quality of ANAO audit work is reliant on the strength of its independence and quality control processes. The [ANAO Quality Assurance Framework and Plan 2022–23](#) defines audit quality as the provision of timely, accurate and relevant audits, performed independently in accordance with the *Auditor-General Act 1997*, ANAO auditing standards and methodologies, which are valued by the Parliament. Delivering quality audits results in improved public sector performance through accountability and transparency.

2.22 The ANAO Quality Assurance Framework and Plan 2022–23 complements the ANAO Corporate Plan and reflects the ANAO's quality assurance strategy and deliverables for the coming year, including:

- articulating the system of quality management that the ANAO established to comply with the requirements of auditing standard ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagements and Related Services Engagements* (ASQC 1);
- supporting the delivery of high-quality audit work; and
- enables the Auditor-General to have confidence in the opinions and conclusions in the reports prepared for the Parliament.

2.23 The ANAO was subject to the requirements of ASQC 1 for part of 2022–23 (1 July to 14 December 2022). From 15 December 2022, three revised auditing standards came into force replacing ASQC 1:

- ASQM 1 – *Quality Management for Firms that Perform Audits or Reviews of Financial Reports and Other Financial Information, or Other Assurance or Related Services Engagements*;
- ASQM 2 – *Engagement Quality Reviews*; and
- ASA 220 – *Quality Management for an Audit of a Financial Report and Other Historical Information*.

71 Department of Finance, *PGPA Newsletter 87*, [Internet], Department of Finance, available from <https://www.finance.gov.au/about-us/newsletters/2022/pgpa-newsletter-87> [Accessed 17 March 2023].

2.24 The revised standards introduced a quality management approach that is focused on proactively identifying and responding to risks of quality. The standards include enhanced requirements and focus on governance and leadership, monitoring and remediation.

2.25 The ANAO has implemented an enhanced system of quality management compliant with the revised standards and responsive to the quality risks that arise in audits of public sector entities. This system of quality management will be articulated in the ANAO Quality Management Framework and Plan 2023–24.

Ethics, independence and integrity

2.26 Ethical requirements, with a focus on independence are core to the quality framework. The fundamental principles of professional ethics, as set out in APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)*, are integrity; objectivity; professional competence and due care; confidentiality; and professional behaviour. The ANAO maintains a continued focus on independence through the application of independence policies that manage threats to independence in the conduct of the ANAO's work. The ANAO Integrity Framework sets out the ANAO's integrity control system, supporting our organisation's integrity. The framework encompasses the ANAO Integrity Statement, which describes five key principles of integrity that staff at the ANAO uphold — independence, honesty, accountability, openness and courage.

Quality management and consultation processes

2.27 In the conduct of their work ANAO auditors apply a robust methodology to drive consistent quality and compliance with the ANAO Auditing Standards. The ANAO audit methodology incorporates policies regarding direction, supervision and review, consultation on significant technical and ethical issues, engagement quality review of high-risk audits and documentation of audit evidence and work performed.

3. Results of the interim audit phase by entity

Chapter coverage

This Chapter summarises the results of the interim audits for the 2022–23 financial statements of the 27 entities included in this report. The entities included in this report are all departments of state, the Department of Parliamentary Services and other Commonwealth entities that significantly contribute to the income, expenses, assets and liabilities within the 2021–22 Consolidated Financial Statements (CFS) of the Australian Government.

The Department of Climate Change, Energy, the Environment and Water and the Department of Employment and Workplace Relations appear in this report for the first time following their establishment on 1 July 2022 as a result of Machinery of Government changes.

The National Indigenous Australians Agency is also included in this report given the role it plays working across government with indigenous communities and stakeholders.

Engagement risk

The ANAO assesses engagement risk on an annual basis. Eleven entities have been assessed as having a high engagement risk rating for 2022–23.

Audit results

There were 29 moderate audit findings reported to the entities covered by this report at the completion of the 2022–23 interim phase compared with one significant and 14 moderate audit findings reported at the interim phase in 2021–22.

At the completion of the interim audits, the ANAO reported to 12 entities that key elements of internal control were operating effectively to provide reasonable assurance that the entities are able to prepare financial statements that are free from material misstatement. For the other 15 entities, the ANAO reported that, except for particular finding/s outlined in this chapter, key elements of internal control were operating effectively to provide reasonable assurance that the entities are able to prepare financial statements that are free from material misstatement.

Non-material entities' financial statements results for 2021–22 not previously reported

There was one significant and three moderate audit findings and three significant legislative breaches reported to four non-material entities at the completion of the 2021–22 financial statements audits that have not previously been reported to the Parliament. The ANAO included an emphasis of matter in the auditor's reports for three of these entities.

Introduction

3.0.1 The ANAO's assessment of the overall risk of material misstatement of the financial statements is based on professional judgement relating to the entity's particular circumstances. The financial statements audit planning process involves joint procedures with the performance audit and performance statements audit groups. The process takes into account an entity's environment and governance arrangements, its system of internal control, and prior year financial and performance audit findings. These planning processes inform the identification of areas of key risk that have the potential to impact on the integrity of the financial statements.

3.0.2 The interim phase of the audit focuses on the steps taken by entities to manage these risks, including their systems of internal control. This chapter reflects entity funding arrangements existing at 30 April 2023 and outlines the following information for each of the reported entities:

- the entity's primary role, as reflected in its October 2022–23 Portfolio Budget Statements;
- 2022–23 appropriation funding and key financial statements items;
- the ANAO's assessment of the overall engagement risk for the 2022–23 financial statements audit, which informs the audit processes to be undertaken;
- key areas of financial statements risk, including where the ANAO has identified Key Audit Matters (KAM); and
- the status of significant and moderate audit findings at the completion of the interim audit, and the conclusion relating to audit coverage to date.

3.0.3 The entities discussed in this report include all departments of state, the Department of Parliamentary Services and other Commonwealth entities that significantly contribute to the revenues, expenses, assets and liabilities within the 2021–22 Consolidated Financial Statements (CFS) for the Commonwealth public sector. The Department of Climate Change, Energy, the Environment and Water and the Department of Employment and Workplace Relations appear in this report for the first time following their establishment on 1 July 2022 as a result of Machinery of Government changes. The National Indigenous Australians Agency is also included in this report given the role it plays working across government with indigenous communities and stakeholders.

3.0.4 Where a performance audit was tabled prior to 30 April 2023 that was relevant to the financial management or administration of an entity, consideration is given to the impact of observations on the audit approach. Further details are included under the entity headings below.⁷²

Engagement risk

3.0.5 An engagement is assessed as being a high, moderate or low risk engagement based upon the overall risk of the engagement to the Auditor-General and the ANAO. This assessment includes consideration of:

- the inherent risk of material misstatement arising from the engagement (that is, the risk that there is a material misstatement in the subject matter before the conduct of the engagement); and
- other professional risks, being any other source of risk to the Auditor-General and the ANAO arising from the conduct of the engagement including, but not limited to, litigious and reputational risks.

3.0.6 The ANAO assesses engagement risk on an annual basis. Where information-gathering processes reveal evidence of misrepresentation or inadequacies, the risk of an engagement would be rated higher to reflect the risk of expressing an inappropriate conclusion based on a lack of sufficient appropriate audit evidence.

72 Performance audits have been included in this report where they are relevant to the 2022–23 financial statements audit.

3.0.7 Eleven entities have been assessed as having a high engagement risk rating for 2022–23. Table 3.0.1 shows the engagement risk rating for 2021–22 and 2022–23 for each of these entities.

Table 3.0.1: Entities with a high engagement risk rating for 2022–23

Entity	Engagement Risk Rating 2021–22	Engagement Risk Rating 2022–23
Department of Agriculture, Fisheries and Forestry ^a	Moderate	High
Department of Climate Change, Energy, the Environment and Water ^b	–	High
Department of Defence	High	High
Department of Education ^c	Moderate	High
Department of Employment and Workplace Relations ^b	–	High
Department of Health and Aged Care ^d	High	High
Department of Home Affairs	High	High
NBN Co Limited	High	High
Department of Social Services	Moderate	High
Services Australia	Moderate	High
Australian Taxation Office	High	High

Note a: Engagement risk rating for 2021–22 relates to the former Department of Agriculture, Water and the Environment.

Note b: The entity was established 1 July 2022 therefore there was no engagement risk rating for 2021–22.

Note c: Engagement risk rating for 2021–22 relates to the former Department of Education, Skills and Employment.

Note d: Engagement risk rating for 2021–22 relates to the former Department of Health.

Source: 2021–22 and 2022–23 ANAO audit correspondence.

Comments on 2021–22 audits of non-material entities not previously reported

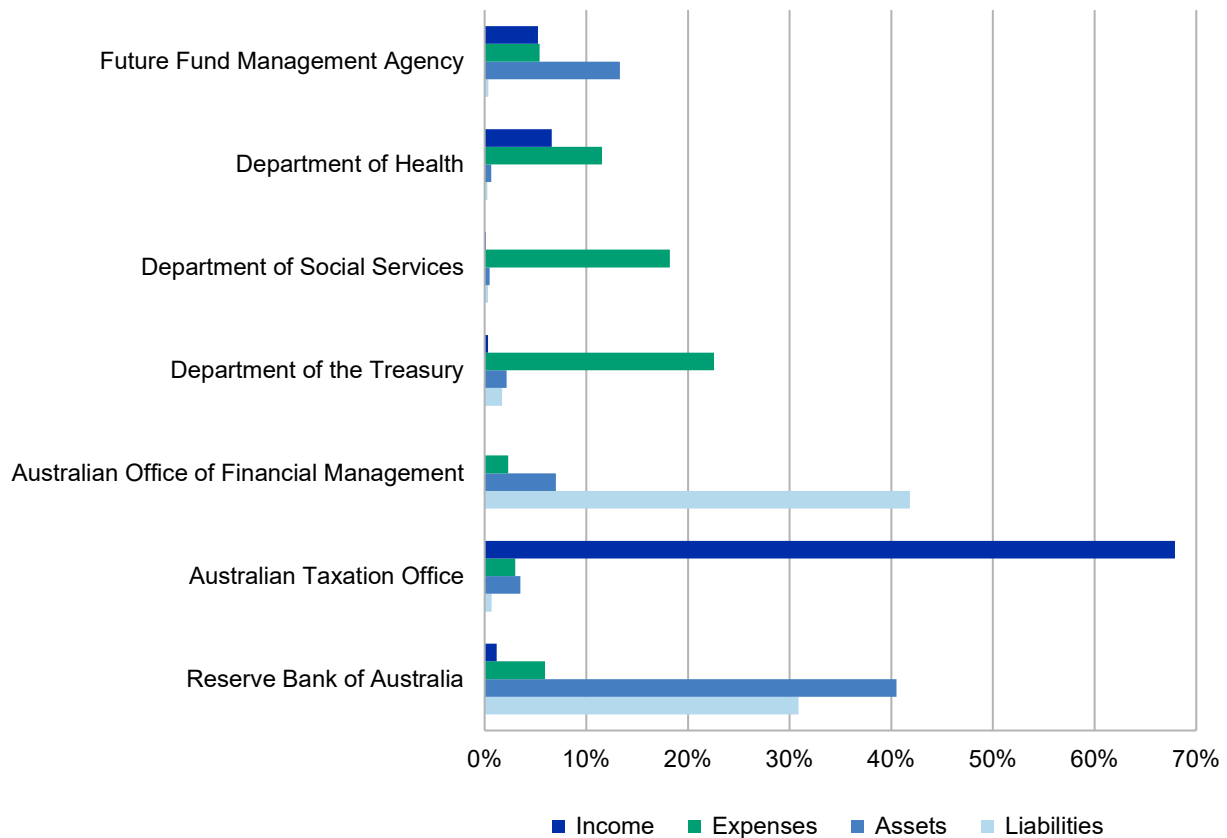
3.0.8 As at 2 December 2022, there were ten entities for which the 2021–22 financial statements audit had not been finalised.⁷³ Commentary has been included in this chapter where significant or moderate findings have been reported to entities on completion of the 2021–22 financial statements audit. These entities are Anindilyakwa Land Council, Army and Air Force Canteen Service, Royal Australian Air Force Welfare Trust Fund and Tiwi Land Council. As at 30 April 2023, the 2021–22 financial statements audits of Bundanon Trust, Royal Australian Navy Central Canteens Board and Win with Navy Ltd had not been finalised.

⁷³ Anindilyakwa Land Council, Army and Air Force Canteen Service, Australian Secret Intelligence Service, Bundanon Trust, Grains Australia Limited, Royal Australian Air Force Welfare Trust Fund, Royal Australian Navy Central Canteens Board, Wheat Quality Australia, Win with Navy Ltd, and Tiwi Land Council.

Analysis of Entities Contribution to the 2021–22 CFS

3.0.9 An analysis of the percentage contribution of material entities in this report to 2021–22 CFS is presented below. Figure 3.0.1 presents the results of seven entities that contribute greater than 10 per cent of either the income, expenses, assets or liabilities of the CFS. The remaining entities are presented in Figure 3.0.2 and contribute less than 10 per cent of all categories.

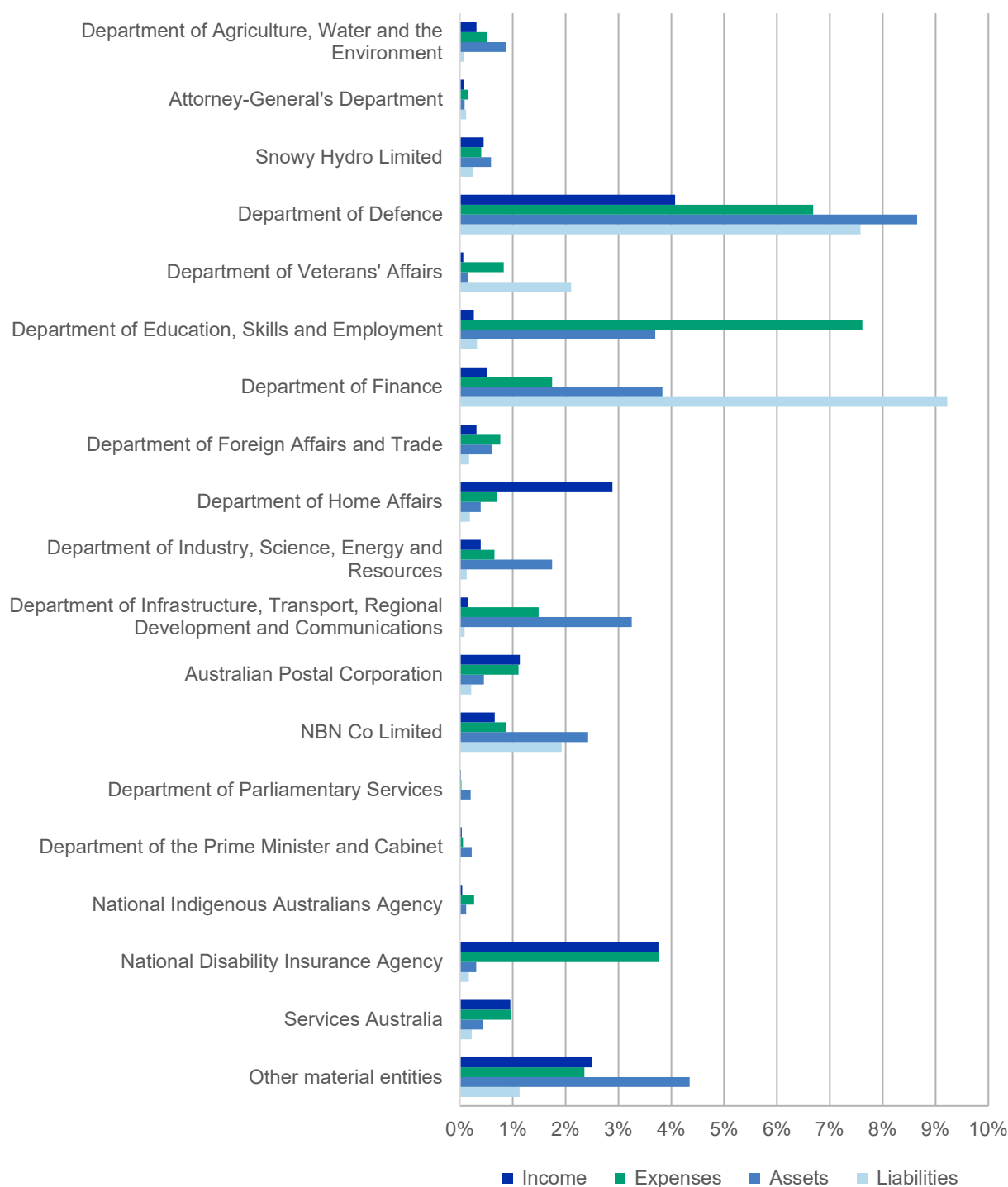
Figure 3.0.1: Material entities contributing more than 10 per cent to the Australian Government’s 2021–22 Consolidated Financial Statements⁷⁴



Source: ANAO analysis of CFS and entities’ financial statements for the year ended 30 June 2022.

⁷⁴ Entity names are as at 30 June 2022 and information does not reflect the impact of Machinery of Government changes that were effective 1 July 2022.

Figure 3.0.2: Material entities contributing less than 10 per cent to the Australian Government's 2021–22 Consolidated Financial Statements⁷⁵



Source: ANAO analysis of CFS and entities' financial statements for the year ended 30 June 2022.

⁷⁵ Entity names are as at 30 June 2022 and information does not reflect the impact of Machinery of Government changes that were effective 1 July 2022.

3.0.10 Table 3.0.2 presents a summary of new and unresolved significant and moderate audit findings⁷⁶ at the conclusion of the 2022–23 interim⁷⁷ audits and the 2021–22 interim and final audits.

Table 3.0.2: Significant and moderate findings by entity

Entity	Interim 2021–22		Final 2021–22		Interim 2022–23	
	New findings ^a	Unresolved findings ^b	New findings ^a	Unresolved findings ^b	New findings ^a	Unresolved findings ^b
Former Department of Agriculture, Water and the Environment	–	–	1 ^c	–	N/A	N/A
Attorney-General's Department	–	–	1	–	–	1
Department of Climate Change, Energy, the Environment and Water	N/A	N/A	N/A	N/A	1	1 ^c
Department of Defence	–	4	–	4	1	4
Department of Veterans' Affairs	–	6	3	5	–	5
Former Department of Education, Skills and Employment	–	–	1 ^d	–	N/A	N/A
Department of Education	N/A	N/A	N/A	N/A	1	1 ^d
Department of Employment and Workplace Relations	N/A	N/A	N/A	N/A	1	1 ^d
Department of Finance	–	–	–	–	1	–
Department of Health and Aged Care	–	1	1	–	–	1
Department of Home Affairs	–	–	–	–	1	–

⁷⁶ The ANAO's rating scale for findings can be found in Chapter 1 at Table 1.5.

⁷⁷ As at 30 April 2023.

Entity	Interim 2021–22		Final 2021–22		Interim 2022–23	
	New findings ^a	Unresolved findings ^b	New findings ^a	Unresolved findings ^b	New findings ^a	Unresolved findings ^b
Department of Infrastructure, Transport, Regional Development and Communications	1	–	–	1	–	1
Department of Social Services	–	1	–	1	–	1
National Disability Insurance Agency	–	1	–	1	2	1
Services Australia	–	–	–	–	2	–
Department of the Treasury	–	–	1	–	–	1
Australian Taxation Office	–	1	2	–	–	1
Total	1	14	10	12	10	19^e

Note a: New findings are those raised during the audit period.

Note b: Unresolved findings are those that have not yet been remediated by the entity from prior audit periods, including audit findings downgraded from significant to moderate.

Note c: This finding was originally raised during the 2021–22 final audit of the former Department of Agriculture, Water and the Environment and has been transferred to the Department of Climate Change, Energy, the Environment and Water.

Note d: This finding was originally raised during the 2021–22 final audit of the former Department of Education, Skills and Employment. As this finding relates to termination of staff, it has been transferred to both the Department of Education and the Department of Employment and Workplace Relations.

Note e: A total of 22 findings were open at the conclusion of the 2021–22 financial audits of the 25 entities included in the 2021–22 Interim Report to Parliament. Four findings have been resolved or downgraded to minor audit findings during 2022–23. However, the 'Timely removal of user access on termination' finding first reported to the former Department of Education, Skills and Employment during the 2021–22 final audit was reported to both the Department of Education and the newly created Department of Employment and Workplace Relations during the 2022–23 interim audits.

Source: 2021–22 and 2022–23 ANAO audit correspondence.

3.1 Department of Agriculture, Fisheries and Forestry

Overview

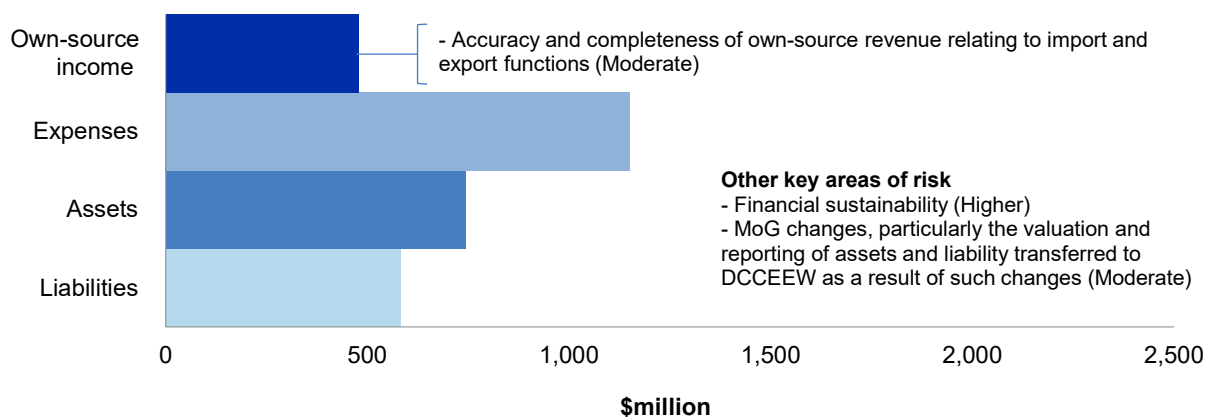
3.1.1 The Department of Agriculture, Fisheries and Forestry (DAFF) is responsible for developing and implementing policies and initiatives to promote more sustainable, productive, internationally competitive and profitable Australian agricultural, food and fibre industries; safeguarding Australia's animal and plant health status to maintain overseas markets and protect the economy and environment from exotic pests and diseases.

3.1.2 On 1 June and 23 June 2022, revised Administrative Arrangements Orders were issued by the Australian Government. As a result, on 1 July 2022, a Machinery of Government (MoG) change occurred with the following impacts for DAFF:

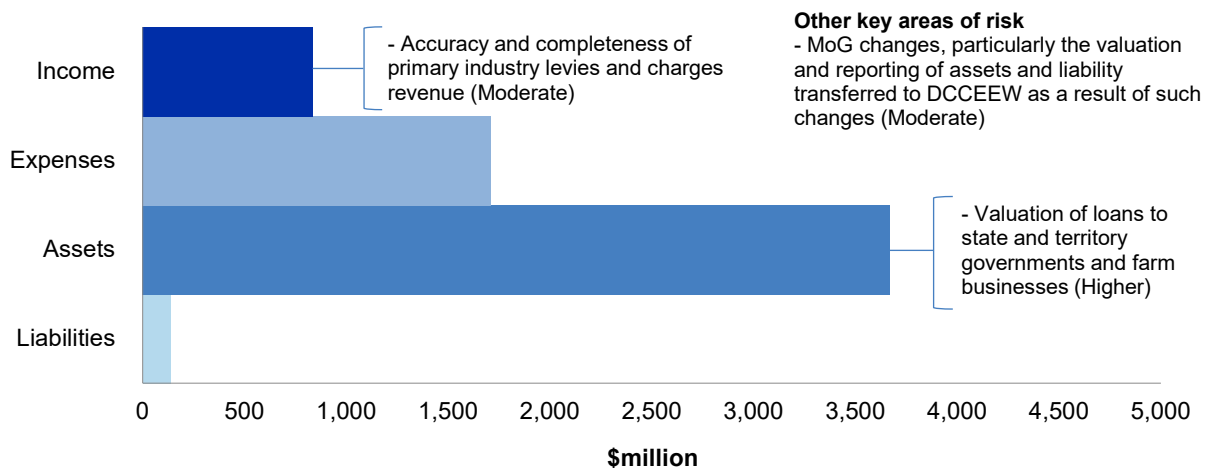
- renaming the former Department of Agriculture, Water and the Environment (DAWE) to the Department of Agriculture, Fisheries and Forestry; and
- functions related to water and the environment were transferred to the newly created Department of Climate Change, Energy, the Environment and Water (DCCEEW). Administered functions transferred to DCCEEW on 1 July 2022, with departmental functions transferring on 1 September 2022.

3.1.3 Figure 3.1.1 and Figure 3.1.2 below show the 2022–23 departmental and administered financial statements items reported by DAFF and the key areas of financial statements risk.

Figure 3.1.1: Key departmental financial statements items and areas of financial statements risk



Source: ANAO analysis and DAFF's budget as reported in the 2022–23 Portfolio Budget Statements.

Figure 3.1.2: Key administered financial statements items and areas of financial statements risk

Source: ANAO analysis and DAFF's budget as reported in the 2022–23 Portfolio Budget Statements.

3.1.4 The ANAO's audit approach identifies key areas of risk that have the potential to impact on DAFF's financial statements. The ANAO's risk assessment process considers the nature of the financial statements items and an understanding of DAFF's environment and governance arrangements, including its financial reporting regime and system of internal control.

3.1.5 In light of the key areas of risk and the ANAO's understanding of the operations of DAFF, the ANAO has increased the overall risk of material misstatement in the financial statements audit from moderate to high in 2022–23. This increase is a result of DAFF's forecast financial position for 2022–23, which increases the risks that entity level and transactional internal controls important to financial management, preparation of the financial statements and the supporting information technology (IT) environment may not operate effectively.

Key financial statements items

3.1.6 Annual appropriation funding⁷⁸ of \$689.5 million (departmental) and \$547.9 million (administered) was provided to DAFF in 2022–23 to support the achievement of the entity's outcomes.⁷⁹ DAFF was also budgeted to receive special appropriation funding of \$1,129.4 million.⁸⁰

3.1.7 Table 3.1.1 and Table 3.1.2 below provide a summary of the key 2022–23 departmental and administered estimated financial statements items.

⁷⁸ Includes transfers of annual appropriations via determinations made under section 75 of the *Public Governance, Performance and Accountability Act 2013*.

⁷⁹ *Supply Act (No. 1) 2022–2023; Supply Act (No. 2) 2022–2023; Supply Act (No. 3) 2022–2023; Supply Act (No. 4) 2022–2023; Appropriation Act (No. 1) 2022–2023; and Appropriation Act (No. 2) 2022–2023*.

⁸⁰ Part 1: Budget Estimate 2022–23, Special Appropriations Table, *Agency Resourcing, Budget Paper No. 4, 2022–2023*.

Table 3.1.1: Key expenses and total own-sourced income

Expenses and own-source income	Departmental budget (\$m) 2022–23	Administered budget (\$m) 2022–23
Total expenses	1,150.9	1,710.0
Employee benefits	616.7	–
Suppliers	450.7	113.4
Depreciation and amortisation	77.0	–
Levy disbursement and Commonwealth contributions	–	986.7
Personal benefits	–	93.0
Write-down and impairment of assets	0.9	33.9
Finance costs	0.7	–
Grants	4.9	400.7
Borrowing costs	–	58.6
Payment to corporate entities	–	23.7
Total own-source income	478.5	836.6
Sale of goods and rendering of services	443.2	–
Other taxes	–	622.9
Interest	0.4	79.0
Gains	1.6	–
Agriculture Future Drought Resilience Special Account	–	100.0
Other	33.3	34.7
Net (cost of) services	(672.4)	(873.4)

Source: DAFF's budget as reported in the 2022–23 Portfolio Budget Statements.

Table 3.1.2: Key assets and liabilities

Assets and liabilities	Departmental budget (\$m) 2022–23	Administered budget (\$m) 2022–23
Total assets	742.7	3,669.2
Cash and cash equivalents	56.8	14.9
Trade and other receivables	80.7	2,978.3
Other financial assets	–	86.3
Investments	15.5	–
Land and buildings	276.4	–
Property and equipment	71.9	–
Intangibles and computer software	231.1	–

Assets and liabilities	Departmental budget (\$m) 2022–23	Administered budget (\$m) 2022–23
Inventories	2.2	–
Other non-financial assets	8.1	5.2
Total liabilities	583.1	136.8
Grants payable	0.2	133.1
Suppliers payable	86.1	1.6
Other payables	32.1	2.1
Interest bearing liabilities (lease liabilities)	278.5	–
Employee provisions	180.8	–
Other provisions	5.4	–
Net assets	159.6	3,532.4

Note: DAFF's estimated average staffing level for 2022–23 is 5,005.

Source: DAFF's budget as reported in the 2022–23 Portfolio Budget Statements.

Key areas of financial statements risk

3.1.8 The ANAO undertakes appropriate audit procedures on all material items and focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. The ANAO also assesses the IT general and application controls for key systems that support the preparation of DAFF's financial statements. Areas highlighted for specific audit coverage in 2022–23 are provided below in Table 3.1.3.

Table 3.1.3: Key areas of financial statements risk

Relevant financial statements line item	Key area of risk	Audit risk rating	Factors contributing to risk assessment
<i>Departmental</i> all financial statements line items	Financial sustainability	Higher	<ul style="list-style-type: none"> significance of DAFF's forecast financial position for 2022–23.

Relevant financial statements line item	Key area of risk	Audit risk rating	Factors contributing to risk assessment
<i>Departmental</i> revenue from contracts with customers \$434.8 million	Accuracy and completeness of own-source revenue relating to import and export functions KAM	Moderate	<ul style="list-style-type: none"> • complex, numerous and high value of revenue streams, including differing charging methods, service provisions, legislative and cost recovery arrangements; • decentralised approach to service provision and revenue collection; • reliance on services provided by the Department of Home Affairs for the collection and capture of revenue arising from import declarations; and • complexity and number of IT systems used to record and collect import and export revenue.
<i>Departmental and administered</i> all financial statements line items	MoG changes, particularly the valuation and reporting of assets and liabilities transferred to DCCEEW as a result of the changes	Moderate	<ul style="list-style-type: none"> • significance of assets, liabilities, revenue and expenses transferred from DAFF to DCCEEW which increases the complexity of the financial statements preparation process.
<i>Administered</i> loans receivable (a component of trade and other receivables \$2,978.3 million)	Valuation of loans to state and territory governments and farm businesses KAM	Higher	<ul style="list-style-type: none"> • complexity in the accounting treatment for loans deemed concessional in nature, including judgements in estimating the market rate that would otherwise apply to the loan; • estimation required to determine expected credit losses. This includes assumptions relating to the security held against each loan, likelihood of enforcement of the security and impacts of industry trading, economic conditions and commodity pricing; and • reliance on third parties, including state and territory governments or the Regional Investment Corporation, for management of loans. Third parties are responsible for entering into loan agreements, approval of recipients, and ongoing monitoring of loans.

Relevant financial statements line item	Key area of risk	Audit risk rating	Factors contributing to risk assessment
<i>Administered</i> levies and charges (a component of other taxes \$622.9 million)	Accuracy and completeness of primary industry levies and charges revenue KAM	Moderate	<ul style="list-style-type: none"> reliance on self-assessment by industry participants to calculate the revenue to be collected by DAFF, particularly the estimation of the level of agricultural production on which levies are calculated; and complexity of IT system used to calculate and collect levies and charges.

Source: ANAO 2022–23 risk assessment, and DAFF's budgeted financial statements for the year ended 30 June 2023.

3.1.9 The ANAO also considers the results of recent performance audits in identifying risks and designing an approach for the financial statements audit. The following performance audit reports were tabled during 2022–23 relevant to the financial management or administration of DAFF:

- Auditor-General Report No.6 2022–23 *Implementation of the Export Control Legislative Framework*; and
- Auditor-General Report No.17 2022–23 *Department of Agriculture, Fisheries and Forestry's cultural reform*.

3.1.10 The observations of these reports were considered in designing audit procedures in relation to departmental revenue from contracts with customers, particularly in relation to export fees and charges, and in the understanding and evaluation of the design and operating effectiveness of entity-level internal controls.

Audit results

3.1.11 The ANAO has completed its 2022–23 interim audit coverage, including an assessment of controls relating to departmental revenue from contracts with customers, administered levies, loans and grants, non-financial assets, employee benefits and suppliers expenses. In addition, interim testing of IT general controls for the financial management information system (FMIS), human resource management information system and selected revenue collection applications has been completed.

3.1.12 At the conclusion of the interim audit, procedures relating to MoG changes had not been completed. At the time of finalising the ANAO's interim audit, DAFF and DCCEE had not finalised their agreement on the assets and liabilities to be transferred between the entities. Audit procedures relating to this key area of risk will be undertaken as part of the 2022–23 final audit.

3.1.13 Audit procedures relating to end-of-year balances for administered loans and non-financial assets and those related to DAFF's financial sustainability and financial management will be undertaken as part of the planned 2022–23 final audit.

3.1.14 To date, our audit coverage of the above areas has not identified any new significant or moderate audit findings.

Conclusion

3.1.15 Based on the ANAO's audit coverage to date, key elements of internal control were operating effectively to provide reasonable assurance that DAFF will be able to prepare financial statements that are free from material misstatement. The effective operation of these internal controls for the full financial year will be assessed during the 2022–23 final audit.

3.2 Attorney-General's Department

Overview

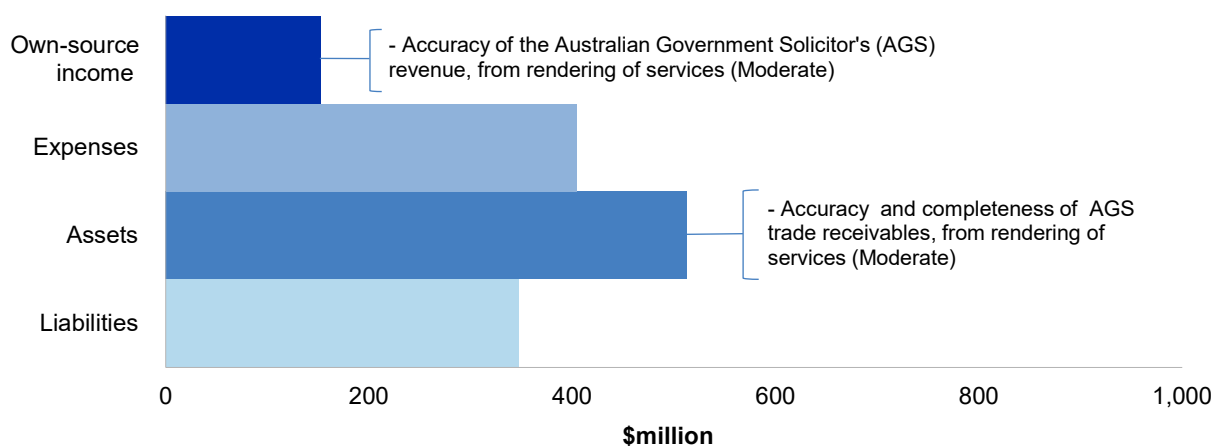
3.2.1 The Attorney-General's Department (AGD) supports the Attorney-General. The roles of the department are to contribute towards a just and secure society by maintaining and improving Australia's law, justice, security and integrity frameworks.

3.2.2 On 1 July 2022, an Administrative Arrangements Order (AAO) took effect which included changes to the responsibilities of AGD. Industrial relations transferred from AGD to the Department of Employment and Workplace Relations. In addition, the following functions were transferred to AGD:

- national security and cybercrime from the Department of Home Affairs;
- national child sexual abuse policy and strategy from the Department of the Prime Minister and Cabinet; and
- copyright from the Department of Infrastructure, Transport, Regional Development, Communications and the Arts.

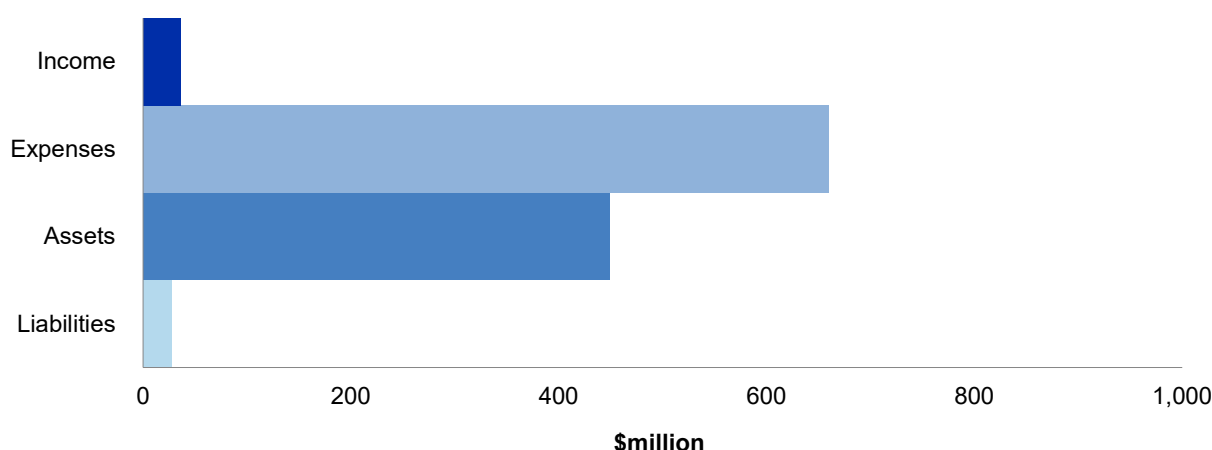
3.2.3 Figure 3.2.1 and Figure 3.2.2 below show the 2022–23 departmental and administered financial statements items reported by AGD and the key areas of financial statements risk.

Figure 3.2.1: Key departmental financial statements items and areas of financial statements risk



Source: ANAO analysis and AGD's budget as reported in the 2022–23 Portfolio Budget Statements.

Figure 3.2.2: Key administered financial statements items and areas of financial statements risk



Source: ANAO analysis and AGD's budget as reported in the 2022–23 Portfolio Budget Statements.

3.2.4 The ANAO's audit approach identifies key areas of risk that have the potential to impact on AGD's financial statements. The ANAO's risk assessment process considers the nature of the financial statements items and an understanding of AGD's environment and governance arrangements, including its financial reporting regime and system of internal control.

3.2.5 In light of the key areas of risk and the ANAO's understanding of the operations of AGD, the ANAO has assessed the overall risk of material misstatement in the 2022–23 financial statements audit as moderate.

Key financial statements items

3.2.6 Annual appropriation funding⁸¹ of \$255.9 million (departmental) and \$509.0 million (administered) was provided to AGD in 2022–23 to support the achievement of the entity's outcomes.⁸² AGD was also budgeted to receive special appropriation funding of \$0.9 million.⁸³

Table 3.2.1: Key expenses and total own-sourced income

Expenses and own-source income	Departmental budget (\$m) 2022–23	Administered budget (\$m) 2022–23
Total expenses	404.2	660.3
Employee benefits	220.3	26.3
Suppliers	132.1	144.0
Subsidies	–	6.4

81 Includes transfers of annual appropriations via determinations made under section 75 of the *Public Governance, Performance and Accountability Act 2013*.

82 *Supply Act (No. 1) 2022–2023; Supply Act (No. 2) 2022–2023; Supply Act (No. 3) 2022–2023; Supply Act (No. 4) 2022–2023; Appropriation Act (No. 1) 2022–2023; and Appropriation Act (No. 2) 2022–2023*.

83 Part 1: Budget Estimate 2022–23, Special Appropriations Table, *Agency Resourcing, Budget Paper No. 4, 2022–2023*.

Expenses and own-source income	Departmental budget (\$m) 2022–23	Administered budget (\$m) 2022–23
Personal benefits	–	1.3
Depreciation and amortisation	45.4	6.6
Grants	–	448.7
Payments to corporate entities	–	26.5
Other	6.4	0.5
Total own-source income	153.3	36.4
Sale of goods and rendering of services	152.8	1.9
Other	0.5	34.5
Net (cost of) services	(250.9)	(623.9)

Source: AGD's budget as reported in the 2022–23 Portfolio Budget Statements.

Table 3.2.2: Key assets and liabilities

Assets and liabilities	Departmental budget (\$m) 2022–23	Administered budget (\$m) 2022–23
Total assets	513.4	449.3
Cash and cash equivalents	5.2	3.2
Trade and other receivables	202.1	1.0
Other investments	–	434.6
Land and buildings	231.0	7.8
Property, plant and equipment	36.5	2.3
Intangibles	27.2	0.4
Other	11.4	0
Total liabilities	347.3	27.5
Suppliers	9.6	13.7
Grants	–	6.5
Other payables	36.2	–
Leases	236.9	3.5
Employee provisions	62.6	3.8
Other provisions	2.0	–
Net assets	166.1	421.8

Note: AGD's estimated average staffing level for 2022–23 is 1,766.

Source: AGD's budget as reported in the 2022–23 Portfolio Budget Statements.

Key areas of financial statements risk

3.2.7 The ANAO undertakes appropriate audit procedures on all material items and focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. The ANAO also assesses the information technology (IT) general and application controls for key systems that support the preparation of AGD's financial statements. Areas highlighted for specific audit coverage in 2022–23 are provided below in Table 3.2.3.

Table 3.2.3: Key areas of financial statements risk

Relevant financial statements line item	Key area of risk	Audit risk rating	Factors contributing to risk assessment
<i>Departmental</i> rendering of services \$152.8 million goods and services receivables (a component of trade and other receivables \$202.1 million)	Accuracy of the Australian Government Solicitor's (AGS) revenue, and the accuracy and completeness of AGS trade receivables, from rendering of services	Moderate	<ul style="list-style-type: none"> the value and timing of revenue recognition is determined with reference to time recorded on various Australian Government Solicitor matters, the completion and recovery of matters and the valuation of work-in-progress at year-end is subject to management judgement.

Source: ANAO 2022–23 risk assessment, and AGD's budgeted financial statements for the year ended 30 June 2023.

Audit results

3.2.8 The ANAO has completed its 2022–23 interim audit coverage, including an assessment of the controls relating to cash management, departmental revenue, supplier expenses and human resources.

3.2.9 The ANAO's planned interim audit procedures included testing of IT general and application controls for the AGD's financial and human resource management information systems. At the conclusion of the 2022–23 interim audit, the ANAO completed testing relating to change management, and backup and recovery. The ANAO is progressing its review of logical access and application controls, including the assessment of implementation of recommendations relating to prior year issues in removing network access.

3.2.10 Audit procedures relating to: the valuation of non-financial assets including administered investments; calculation of employee provisions; and financial statements close processes will be undertaken as part of the planned 2022–23 final audit.

3.2.11 The following table summarises the status of audit findings as at the end of the 2022–23 interim audit as reported by the ANAO.

Table 3.2.4: Status of audit findings raised by the ANAO

Category	Closing position (2021–22 final)	New findings (2022–23 interim)	Resolved findings (2022–23 interim)	Closing position (2022–23 interim)
B	1	–	–	1
Total	1	–	–	1

Unresolved moderate audit finding**User Access Removal**

3.2.12 In 2021–22, the ANAO identified weaknesses in processes for removing user access from employees and contractors who have separated from AGD. User accounts were not being removed when there was no longer a business requirement for that access.

3.2.13 AGD developed business processes for manually detecting and investigating access relating to separated users which were implemented in March 2023. AGD has advised it is progressing the implementation of an automated solution. The ANAO will review controls and processes as part of the planned 2022–23 final audit.

Conclusion

3.2.14 At the completion of the interim audit, and except for the finding outlined above, the ANAO identified that key elements of internal control were operating effectively to provide reasonable assurance that AGD will be able to prepare financial statements that are free from material misstatement. The effective operation of these controls for the full financial year will be assessed in conjunction with additional audit testing during the 2022–23 final audit.

3.3 Department of Climate Change, Energy, the Environment and Water

Overview

3.3.1 The Department of Climate Change, Energy, the Environment and Water (DCCEEW) leads and delivers the Government's agenda across climate change, energy, environment, heritage and water.

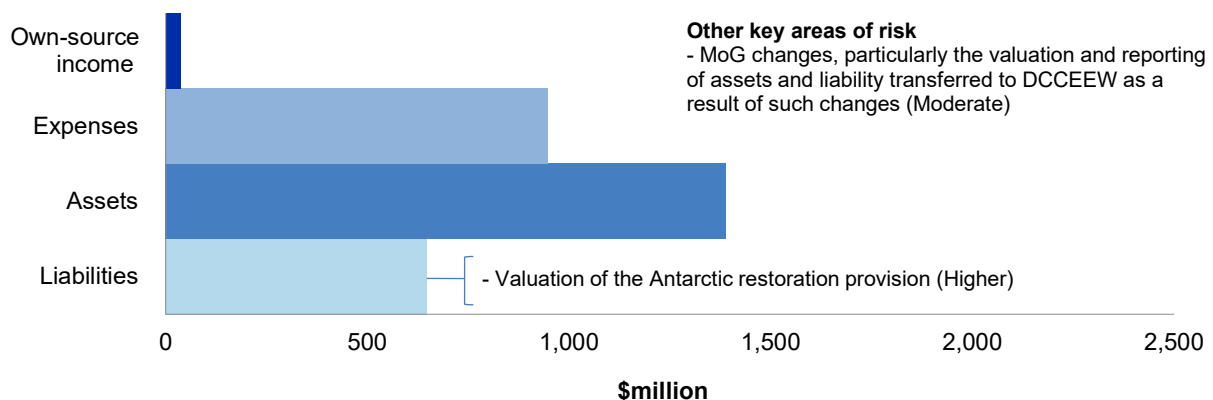
3.3.2 On 1 July 2022, an Administrative Arrangements Order took effect which created DCCEEW. DCCEEW received the following functions:

- the water and environment function from the former Department of Agriculture, Water and the Environment (DAWE);
- the energy and climate change functions from the former Department of Industry, Science, Energy and Resources and the Department of Foreign Affairs and Trade;
- water infrastructure and the National Water Grid Authority from the former Department of Infrastructure, Transport, Regional Development and Communications.

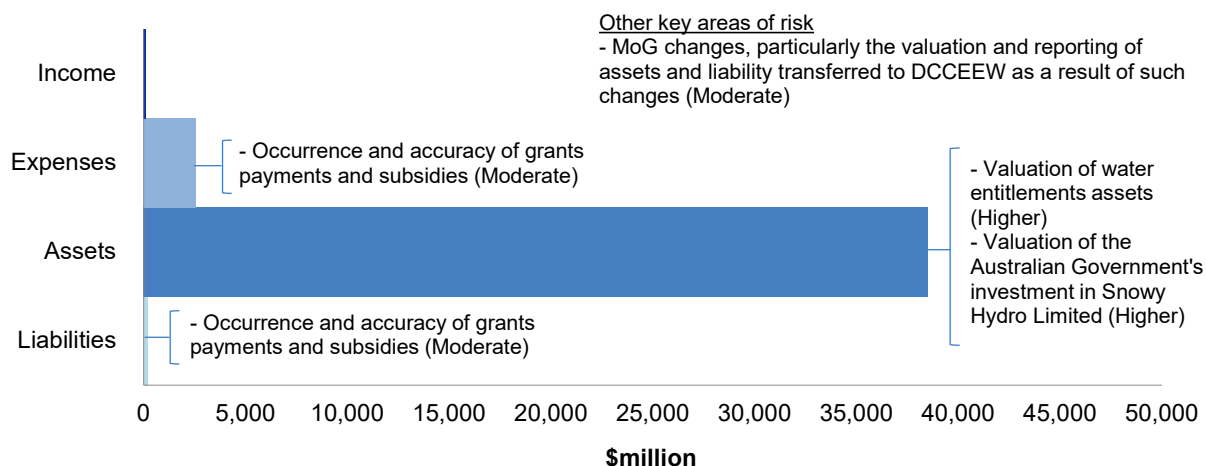
3.3.3 The Administrative Arrangements Order which took effect on 14 October 2022 added Carbon capture utilisation and storage policies and programs to the matters dealt with by DCCEEW.

3.3.4 Figure 3.3.1 and Figure 3.3.2 below show the 2022–23 departmental and administered financial statements items reported by DCCEEW and the key areas of financial statements risk.

Figure 3.3.1: Key departmental financial statements items and areas of financial statements risk



Source: ANAO analysis and DCCEEW's budget as reported in the 2022–23 Portfolio Budget Statements.

Figure 3.3.2: Key administered financial statements items and areas of financial statements risk

Source: ANAO analysis and DCCEEW's budget as reported in the 2022–23 Portfolio Budget Statements.

3.3.5 The ANAO's audit approach identifies key areas of risk that have the potential to impact on DCCEEW's financial statements. The ANAO's risk assessment process considers the nature of the financial statements items and an understanding of DCCEEW's environment and governance arrangements, including its financial reporting regime and system of internal control.

3.3.6 In light of the key areas of risk and the ANAO's understanding of the operations of DCCEEW, the ANAO has assessed the overall risk of material misstatement in the 2022–23 financial statements audit as high. This risk rating reflects the nature of the maturing system of internal control supporting financial management and the complexity of the preparation of the financial statements following the establishment of DCCEEW on 1 July 2022.

Key financial statements items

3.3.7 Annual appropriation funding⁸⁴ of \$950.3 million (departmental) and \$3,437.5 million (administered) was provided to DCCEEW in 2022–23 to support the achievement of the entity's outcomes.⁸⁵ DCCEEW was also budgeted to receive special appropriation funding of \$71,000.⁸⁶

3.3.8 Table 3.3.1 and Table 3.3.2 below provide a summary of the key 2022–23 departmental and administered estimated financial statements items.

84 Includes transfers of annual appropriations via determinations made under section 75 of the *Public Governance, Performance and Accountability Act 2013*.

85 *Supply Act (No. 3) 2022–2023; Supply Act (No. 4) 2022–2023; Appropriation Act (No. 1) 2022–2023; and Appropriation Act (No. 2) 2022–2023*.

86 Part 1: Budget Estimate 2022–23, Special Appropriations Table, *Agency Resourcing, Budget Paper No. 4, 2022–2023*.

Table 3.3.1: Key expenses and total own-sourced income

Expenses and own-source income	Departmental budget (\$m) 2022–23	Administered budget (\$m) 2022–23
Total expenses	947.7	2,550.3
Employee benefits	270.8	–
Suppliers	558.4	378.1
Depreciation and amortisation	95.2	7.8
Finance costs	20.4	–
Grants	2.5	1,639.0
Payment to corporate entities	–	525.4
Other	0.4	–
Total own-source income	36.0	99.1
Sale of goods and rendering of services	24.7	–
Other revenue	8.9	–
Interest	–	3.2
Other gains	2.3	–
Dividends	–	58.4
Other	0.1	37.5
Net (cost of) services	(911.7)	(2,451.2)

Source: DCCEEW's budget as reported in the 2022–23 Portfolio Budget Statements.

Table 3.3.2: Key assets and liabilities

Assets and liabilities	Departmental budget (\$m) 2022–23	Administered budget (\$m) 2022–23
Total assets	1,389.3	38,507.2
Cash and cash equivalents	10.1	14,610.2
Trade and other receivables	253.9	16.2
Land and buildings	187.5	0.6
Property and equipment	758.8	609.1
Intangibles	91.6	4,075.5
Heritage and cultural	72.5	1.0
Inventories	10.2	24.9
Investments	–	19,169.6
Other	4.7	0.1
Total liabilities	648.5	185.5

Assets and liabilities	Departmental budget (\$m) 2022–23	Administered budget (\$m) 2022–23
Grants	–	43.6
Suppliers payable	37.0	93.5
Other payables	21.7	0.5
Interest bearing liabilities	9.3	–
Employee provisions	103.3	–
Other provisions	477.2	47.9
Net assets	740.8	38,321.7

Note: DCCEE's estimated average staffing level for 2022–23 is 2,408.

Source: DCCEE's budget as reported in the 2022–23 Portfolio Budget Statements.

Key areas of financial statements risk

3.3.9 The ANAO undertakes appropriate audit procedures on all material items and focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. The ANAO also assesses the information technology (IT) general and application controls for key systems that support the preparation of DCCEE's financial statements. Areas highlighted for specific audit coverage in 2022–23 are provided below in Table 3.3.3.

Table 3.3.3: Key areas of financial statements risk

Relevant financial statements line item	Key area of risk	Audit risk rating	Factors contributing to risk assessment
<i>Departmental</i> Antarctic solid waste disposal sites and Antarctic regions provision (a component of other provisions \$477.2 million)	Valuation of the Antarctic restoration provision KAM	Higher	<ul style="list-style-type: none"> nature of the Australian Government's obligations under the Madrid Protocol to maintain and remediate the impact of operations in Antarctica; complex mathematical model with a number of inputs and data sources; and the provision is subject to increased judgement and estimation, particularly relating to discount rates, escalation factors, asset replacement costs, dismantling costs and useful lives.

Relevant financial statements line item	Key area of risk	Audit risk rating	Factors contributing to risk assessment
<i>Departmental and administered</i> all financial statements line items	Machinery of Government changes, particularly the valuation and reporting of assets and liabilities transferred to DCCEEW as a result of these changes	Moderate	<ul style="list-style-type: none"> significance of assets, liabilities, revenue and expenses transferred from the Department of Agriculture, Fisheries and Forestry (DAFF), the Department of Industry, Science and Resources and other entities to DCCEEW which will increase the complexity of the financial statements preparation process; and complexity and number of financial management information systems which contain information that will support the preparation of the financial statements.
<i>Administered</i> water entitlements (a component of intangibles \$4,075.5 million)	Valuation of water entitlements assets KAM	Higher	<ul style="list-style-type: none"> significant judgement in the estimation of the value and impairment of water entitlements that is impacted by factors including the maturity and assessment of the water market; and reliance on third parties for the provision of information to support the valuation.
<i>Administered</i> investments \$19,169.6 million	Valuation of the Australian Government's investment in Snowy Hydro Limited KAM	Higher	<ul style="list-style-type: none"> complex discounted cash flow models that require judgement in the selection of assumptions and inputs, including estimated future cash flows, weighted average cost of capital, terminal values and discount rates that are based on primarily unobservable data; the significance of the balance of administered investments to the financial statements.
<i>Administered</i> grants \$1,639.0 million grants payable \$43.6 million	Occurrence and accuracy of grants payments and subsidies	Moderate	<ul style="list-style-type: none"> complex, significant and diverse range of grant programs that include a number of different administrative and legislative arrangements and conditions which impact payments; and level of subjectivity and judgement applied in determining whether a recipient meets eligibility and funding milestone requirements.

Source: ANAO 2022–23 risk assessment, and DCCEEW's budgeted financial statements for the year ended 30 June 2023.

Audit results

3.3.10 The ANAO has completed its 2022–23 interim audit coverage, including an assessment of the controls relating to revenue and receivables, suppliers' expenses, employee benefits, non-financial assets, grants and subsidies and the Natural Heritage Trust of Australia Account. Interim audit coverage also included an assessment of IT general controls, including security and change management processes relevant to the financial and human resources management information systems.

3.3.11 At the conclusion of the interim audit, procedures relating to MoG changes had not been completed. At the time of finalising the ANAO's interim audit, DAFF and DCCEEW had not finalised their agreement on the assets and liabilities to be transferred between the entities. Audit procedures relating to this key area of risk will be undertaken as part of the 2022–23 final audit.

3.3.12 Audit procedures relating to appropriations and special accounts, lease liabilities, the Antarctic solid waste disposal sites and Antarctic regions provisions, water entitlements and recognition of joint operations (Living Murray Initiative and River Murray Operations) will be undertaken as part of the planned 2022–23 final audit.

3.3.13 The following table summarises the status of audit findings as at the end of the 2022–23 interim audit as reported by the ANAO.

Table 3.3.4: Status of audit findings raised by the ANAO

Category	Closing position (2021–22 final)	New findings (2022–23 interim)	Resolved findings (2022–23 interim)	Closing position (2022–23 interim)
B	1 ^a	1	–	2
Total	1	1	–	2

Note a: The moderate audit finding relating to FMIS Privileged user access management was first reported to the former Department of Agriculture, Water and the Environment as part of the 2021–22 financial statements audit. DAFF transferred the administrative responsibility for the SAP Financial Management Information System (FMIS) to DCCEEW in February 2023. Prior to February 2023 DAFF was responsible for the FMIS. The finding was not resolved by DAFF and the audit finding has now transferred to DCCEEW.

New moderate audit finding

SAP FMIS user access provisioning and removal of user access

3.3.14 The provisioning and removal of access to the FMIS relies on a mix of automated and manual controls that are supported by information provided by DCCEEW's IT shared service provider DAFF. Prior to February 2023 SAP was administered by DAFF. The effective operation of these controls would ensure that users only have access to functions and transactions within the FMIS that are appropriate to their role. User accounts should be removed or updated when there is no longer a business requirement for access after this date.

3.3.15 The ANAO identified instances where user access was not removed in a timely manner following a user's termination and where users had access to functions and roles within the FMIS that were not relevant to their position. The ANAO recommended that DCCEEW develop risk-based monitoring controls to confirm user access and role assignments are appropriate and that user access is removed in a timely manner.

3.3.16 The ANAO will confirm the implementation and effective operation of the monitoring of user access provisioning and removal by DCCEEW as part of the 2022–23 financial statements audit.

Unresolved moderate audit finding

SAP FMIS privileged user management

3.3.17 This finding was first reported to DAWE as part of the ANAO’s audit of the DAWE’s 2021–22 financial statements. During the 2021–22 audit of DAWE’s financial statements, the ANAO identified weaknesses in the effectiveness of monitoring of privileged user activities within the FMIS.

3.3.18 The ANAO identified that audit logs of privileged user activities were not regularly reviewed and that reviews confirming the currency of user access had not been regularly completed. Failure to undertake these reviews increases the risk of erroneous or unauthorised changes to IT systems will not be identified and addressed. The ANAO recommended that DAWE recommence these reviews.

3.3.19 The ANAO identified that reviews of privileged user activities had not been undertaken by DAFF for the period October 2022 to January 2023, or by DCCEEW after February 2023. During this period, reviews confirming the currency of user access were also not fully completed. The ANAO has recommended that DCCEEW finalise the outstanding reviews of privileged user activities and embed a formal process that will support the review being performed in a timely manner. The ANAO will review DCCEEW’s progress in finalising the outstanding reviews during the 2022–23 final audit.

Conclusion

3.3.20 At the completion of the interim audit, and except for the findings outlined above, the ANAO identified that key elements of internal control were operating effectively to provide reasonable assurance that DCCEEW will be able to prepare financial statements that are free from material misstatement. The effective operation of these controls for the full financial year will be assessed in conjunction with additional audit testing during the 2022–23 final audit.

3.4 Snowy Hydro Limited

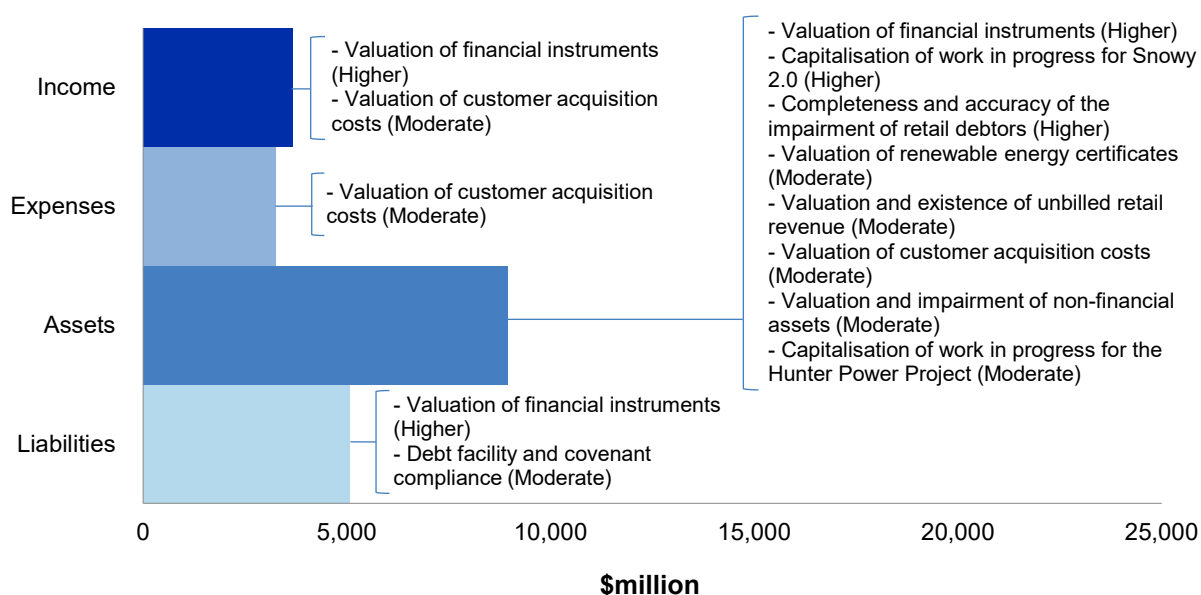
Overview

3.4.1 Snowy Hydro Limited (Snowy Hydro) is a government business enterprise whose primary business includes energy generation activities to supply the National Electricity Market (NEM) and operating as a retail energy provider to over 1.2 million customers through the Red Energy and Lumo Energy brands. Snowy Hydro's energy generation capacity of more than 5,500 megawatts supplies New South Wales, Victoria and South Australia, primarily through the generation capacity of the Snowy Mountains hydroelectric scheme.

3.4.2 Snowy Hydro is currently progressing Snowy 2.0, a pumped hydro project that will add 2,000 megawatts of on-demand generation and approximately 350,000 megawatt hours of large-scale storage to the NEM. In 2021–22 Snowy Hydro commenced construction of a 660 megawatt open cycle gas turbine power station at Kurri Kurri, New South Wales, known as the Hunter Power Project. The project obtained approval from the NSW Government in December 2021 and environmental approval from the Australian Government in February 2022.

3.4.3 Figure 3.4.1 below shows the 2021–22 financial statements items reported by Snowy Hydro and the key areas of financial statements risk.

Figure 3.4.1: Key financial statements items and areas of financial statements risk



Source: ANAO analysis and Snowy Hydro's audited financial statements for the year ended 30 June 2022.

3.4.4 The ANAO's audit approach identifies key areas of risk that have the potential to impact on Snowy Hydro's financial statements. The ANAO's risk assessment process considers the nature of the financial statements items and an understanding of Snowy Hydro's environment and governance arrangements, including its financial reporting regime and system of internal control.

3.4.5 In light of the key areas of risk and the ANAO's understanding of the operations of Snowy Hydro, the ANAO has assessed the overall risk of material misstatement in the 2022–23 financial statements audit as moderate.

Key financial statements items

3.4.6 Snowy Hydro does not receive any annual appropriation funding. The operational functions of Snowy Hydro are funded through own source income. The primary income sources for Snowy Hydro are retail revenue which arises from the supply of electricity and gas to customers through the Red and Lumo energy brands and wholesale revenue arising from the generation and supply of electricity to the NEM. Snowy Hydro is accessing a mix of private debt funding and equity injections from the Australian Government to fund the construction and delivery of the Snowy 2.0 and Hunter Power projects.

3.4.7 Table 3.4.1 and Table 3.4.2 below provide a summary of the key items from the 2021–22 audited financial statements.

Table 3.4.1: Key expenses and total own-sourced income

Expenses and own-source income	Actual (\$m) 2021–22
Total expenses	3,256.9
Direct costs of revenue	2,660.1
Depreciation and amortisation	155.0
Employee benefits	228.7
Impairment loss on trade receivables	20.5
Net finance costs	18.7
Other	173.9
Total income	3,677.5
Revenue	3,499.4
Other income	23.1
Changes in the fair value of financial instruments	155.0
Profit before income tax	420.6
Income tax expense	125.8
Profit after income tax	294.8

Source: Snowy Hydro's 2021–22 audited financial statements.

Table 3.4.2: Key assets and liabilities

Assets and liabilities	Actual (\$m) 2021–22
Total assets	8,953.8
Cash and cash equivalents	74.0
Trade and other receivables	636.7
Other financial assets	1,955.5
Deferred tax assets	56.8
Property, plant and equipment	5,222.5
Goodwill and other intangible assets	502.0
Other	506.3
Total liabilities	5,078.9
Trade and other payables	842.3
Interest bearing liabilities	2,774.3
Other financial liabilities	1,276.0
Other	186.3
Net assets	3,874.9

Note: Snowy Hydro's staffing level at 30 June 2022 was 1,726 including non-ongoing contractors as reported in the 2021–22 annual report.

Source: Snowy Hydro's 2021–22 audited financial statements.

Key areas of financial statements risk

3.4.8 The ANAO undertakes appropriate audit procedures on all material items and focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. The ANAO also assesses the information technology (IT) general and application controls for key systems that support the preparation of Snowy Hydro's financial statements. Areas highlighted for specific audit coverage in 2022–23 are provided below in Table 3.4.3.

Table 3.4.3: Key areas of financial statements risk

Relevant financial statements line item	Key area of risk	Audit risk rating	Factors contributing to risk assessment
Other financial assets \$1,955.5 million other financial liabilities \$1,276.0 million changes in the fair value of financial instruments \$155.0 million increase in other comprehensive income \$453.3 million	Valuation of financial instruments KAM	Higher	<ul style="list-style-type: none"> increased level of management judgement required to determine fair value of derivative contracts which are underpinned by complex data models to calculate financial instrument values; valuation process requires the use of observable and unobservable inputs to calculate fair value. The nature and uniqueness of some energy market derivatives recognised by Snowy Hydro requires an increased level of judgement to determine unobservable valuation model inputs; and the valuation of financial instruments is sensitive to inputs such as electricity prices, electricity supply volumes and market data such as interest and exchange rates.
Property, plant and equipment (a component of \$3,358.3 million construction in progress balance)	Capitalisation of work in progress for Snowy 2.0 KAM	Higher	<ul style="list-style-type: none"> Snowy 2.0 is a complex infrastructure project delivered over a number of financial periods; and judgement applied by Snowy Hydro in determining which costs associated with project establishment and delivery meet the relevant technical requirements for capitalisation.
Trade and other receivables \$636.7 million (includes unbilled receivable of \$265.9 million) allowance for doubtful debts \$64.7 million	Completeness and accuracy of the impairment of retail debtors KAM	Higher	<ul style="list-style-type: none"> level of judgement applied by management in determining the estimate of expected lifetime credit loss on trade and other receivables. Management is required to consider the economic impact of external events in making these judgements which increases estimation uncertainty.
Environmental certificate assets \$92.0 million	Valuation of renewable energy certificates	Moderate	<ul style="list-style-type: none"> increased level of judgement applied by Snowy Hydro in determining the appropriate accounting treatment for renewable energy certificates and the valuation at balance date.

Relevant financial statements line item	Key area of risk	Audit risk rating	Factors contributing to risk assessment
Unbilled revenue receivable \$265.9 million	Valuation and existence of unbilled retail revenue	Moderate	<ul style="list-style-type: none"> estimation required due to services provided not yet billed arising from timing of electricity meter reads for customers and the date of preparing the financial statements; and estimation process involves increased management judgement underpinned by a complex data model with a number of inputs, significant number of customers and data sources.
Capitalised customer acquisition costs \$71.6 million (a component of \$502.0 million goodwill and other intangible assets) amortisation expense \$35.0 million	Valuation of customer acquisition costs	Moderate	<ul style="list-style-type: none"> level of management judgement applied in determining which costs outlaid to acquire retail customers meet the relevant technical requirements for capitalisation; and complexity of estimation process and judgement applied to determine an appropriate amortisation rate reflective of the expected time a customer will continue to procure services from Snowy Hydro.
Goodwill \$383.2 million (a component of \$502.0 million goodwill and other intangible assets)	Valuation and impairment of non-financial assets	Moderate	<ul style="list-style-type: none"> the impairment estimation process is complex and judgemental due to the nature of the impairment model which requires assumptions to be made related to future cash flows and discount rates.
Property, plant and equipment (a component of \$3,358.3 million construction in progress balance)	Capitalisation of work in progress for the Hunter Power Project	Moderate	<ul style="list-style-type: none"> judgement applied by Snowy Hydro in determining which costs associated with project establishment and delivery meet the relevant technical requirements for capitalisation.
Interest bearing liabilities \$2,774.3 million	Debt facility and covenant compliance	Moderate	<ul style="list-style-type: none"> Snowy Hydro is accessing a mix of private debt funding and equity injections from the Australian Government to fund the construction and delivery of the Snowy 2.0 and Hunter Power projects. Some of these funding arrangements contain covenants that must be complied with.

Source: ANAO 2022–23 risk assessment, and Snowy Hydro's audited financial statements for the year ended 30 June 2022.

3.4.9 The ANAO also considers the results of recent performance audits in identifying risks and designing an approach for the financial statements audit. No performance audit reports were tabled during 2022–23 relevant to the financial management or administration of Snowy Hydro.

Audit results

3.4.10 The ANAO has completed its 2022–23 interim audit coverage, including an assessment of the controls relating to: retail and generation billing revenue and receivables; purchase to pay; treasury; renewable energy certificates; financial reporting; and payroll.

3.4.11 Audit procedures relating to IT general and application controls, assessment of controls relating to non-financial assets and substantive testing on all material financial statements line items will be undertaken as part of the planned 2022–23 final audit. This will include audit procedures to test material accounting estimates made by Snowy Hydro, relating to the key areas of financial risk: valuation of financial instruments; capitalisation of customer acquisition costs; valuation of unbilled electricity revenue receivable; valuation of renewable energy certificates; impairment of goodwill; and impairment of trade and other receivables.

3.4.12 To date, our audit coverage of the above areas has not identified any new significant or moderate audit findings.⁸⁷

Conclusion

3.4.13 Based on our audit coverage to date, key elements of internal control were operating effectively to provide reasonable assurance that Snowy Hydro will be able to prepare financial statements that are free from material misstatement. The effective operation of these internal controls for the full financial year will be assessed during the 2022–23 final audit.

87 The 2021–22 audit also did not identify any significant or moderate audit findings.

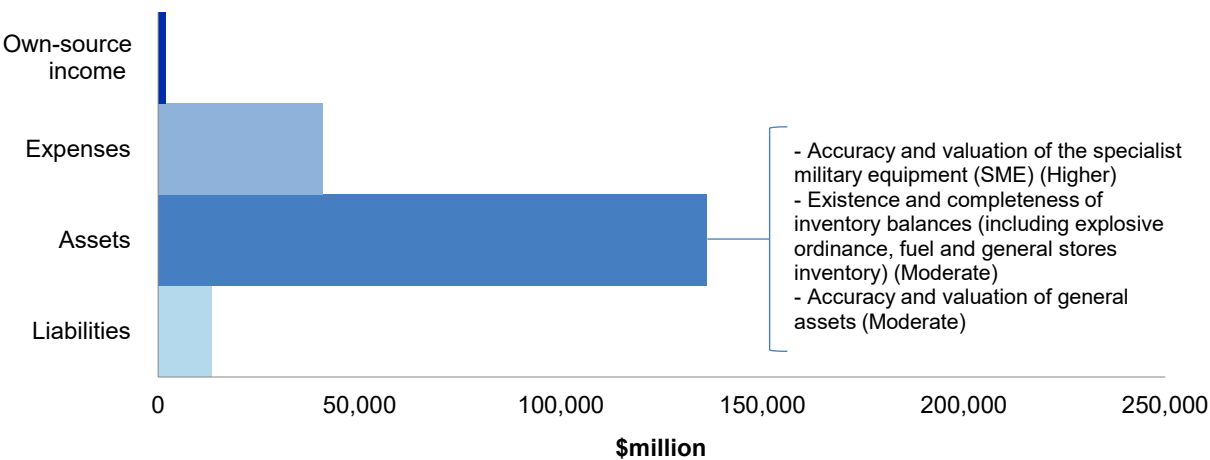
3.5 Department of Defence

Overview

3.5.1 The Department of Defence is responsible for protecting and advancing Australia’s strategic interests through the promotion of security and stability; the provision of military capabilities to defend Australia and its national interests; and the provision of support for the Australian community and civilian authorities as directed by the Australian Government.

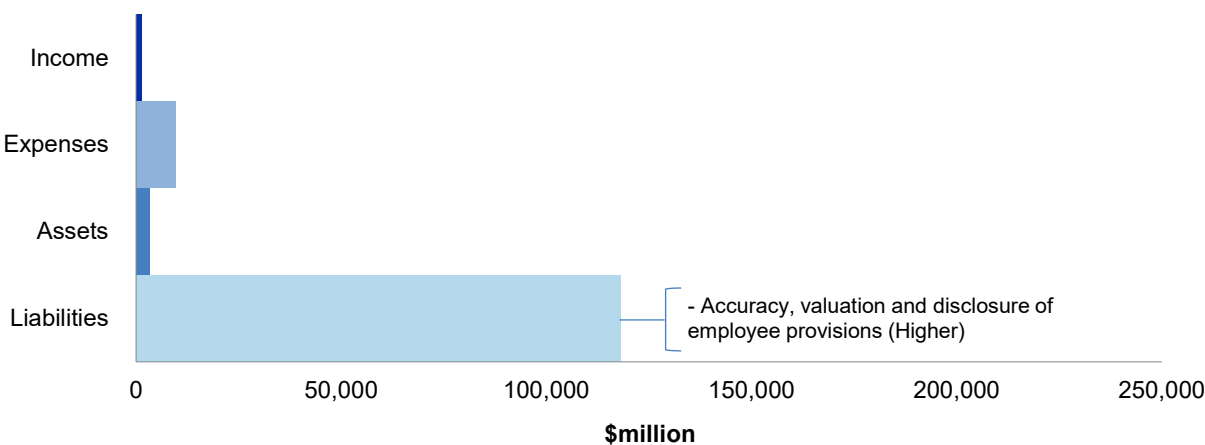
3.5.2 Figure 3.5.1 and Figure 3.5.2 below show the 2022–23 departmental and administered financial statements items reported by Defence and the key areas of financial statements risk.

Figure 3.5.1: Key departmental financial statements items and areas of financial statements risk



Source: ANAO analysis and Defence’s budget estimate as reported in the 2022–23 Portfolio Budget Statements.

Figure 3.5.2: Key administered financial statements items and areas of financial statements risk



Source: ANAO analysis and Defence’s budget estimate as reported in the 2022–23 Portfolio Budget Statements.

3.5.3 The ANAO’s audit approach identifies key areas of risk that have the potential to impact on Defence’s financial statements. The ANAO’s risk assessment process considers the nature of the

financial statements items and an understanding of Defence's environment and governance arrangements, including its financial reporting regime and system of internal control.

3.5.4 In light of the key areas of risk and the ANAO's understanding of the operations of Defence, the ANAO has assessed the overall risk of material misstatement in the 2022–23 financial statements audit as high.

Key financial statements items

3.5.5 Annual appropriation funding of \$47,362.3 million (departmental) was provided to Defence in 2022–23 to support the achievement of the entity's outcomes.⁸⁸ Defence was also budgeted to receive special appropriation funding of \$3,650.9 million.⁸⁹

3.5.6 Table 3.5.1 and Table 3.5.2 below provide a summary of the key 2022–23 departmental and administered estimated financial statements items.

Table 3.5.1: Key expenses and total own-sourced income

Expenses and own-source income	Departmental budget estimate (\$m) 2022–23	Administered budget estimate (\$m) 2022–23
Total expenses	40,740.6	9,606.3
Employee benefits	13,025.4	–
Suppliers	19,567.3	–
Grants	42.1	–
Depreciation and amortisation	6,324.8	–
Finance costs	101.4	–
Write-down and impairment of assets	1,277.4	–
Military superannuation benefits	–	9,466.0
Expenses in relation to Defence Trusts and Joint Accounts	399.1	–
Other	3.1	140.3
Total own-source income	1,946.5	1,256.9
Sale of goods and rendering of services	315.3	–
Revenue in relation to Defence Trusts and Joint Accounts	399.1	–
Other revenue	262.7	–
Reversals of previous asset write-downs	602.7	–
Military superannuation contributions	–	1,123.9

88 *Supply Act (No. 1) 2022–2023; Supply Act (No. 2) 2022–2023; Supply Act (No. 3) 2022–2023; Supply Act (No. 4) 2022–2023; Appropriation Act (No. 1) 2022–2023; and Appropriation Act (No. 2) 2022–2023.*

89 Part 1: Budget Estimate 2022–23, Special Appropriations Table, *Agency Resourcing, Budget Paper No. 4, 2022–2023.*

Expenses and own-source income	Departmental budget estimate (\$m) 2022–23	Administered budget estimate (\$m) 2022–23
Net gains from sale of assets	13.4	–
Other	353.3	133.0
Net (cost of) services	(38,794.1)	(8,349.4)

Source: Defence's budget estimate as reported in the 2022–23 Portfolio Budget Statements.

Table 3.5.2: Key assets and liabilities

Assets and liabilities	Departmental budget estimate (\$m) 2022–23	Administered budget estimate (\$m) 2022–23
Total assets	136,183.0	3,285.4
Cash and cash equivalents	756.9	–
Trade and other receivables	167.1	133.7
Tax assets	392.1	–
Appropriation receivable	1,095.6	–
Other receivables	830.9	–
Investments accounted for using the equity method	–	3,105.1
Specialist military equipment	86,847.1	–
Intangibles	2,500.1	–
Land and buildings	24,134.2	–
Infrastructure, plant and equipment	8,811.0	–
Heritage and cultural	406.0	–
Inventories	8,228.1	–
Prepayments	1,853.3	46.6
Other	160.6	–
Total liabilities	13,294.2	118,061.7
Suppliers	4,717.9	–
Other payables	1,118.9	1.3
Leases	2,930.5	–
Employee provisions	3,233.7	118,060.4
Restoration, decontamination and decommissioning provisions	1,009.0	–
Other	284.2	–
Net assets/(liabilities)	122,888.9	(114,776.3)

Note: Defence's estimated average staffing level for 2022–23 is 79,054.

Source: Defence's budget estimate as reported in the 2022–23 Portfolio Budget Statements.

Key areas of financial statements risk

3.5.7 The ANAO undertakes appropriate audit procedures on all material items and focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. The ANAO also assesses the information technology (IT) general and application controls for key systems that support the preparation of Defence's financial statements. Areas highlighted for specific audit coverage in 2022–23 are provided below in Table 3.5.3.

Table 3.5.3: Key areas of financial statements risk

Relevant financial statements line item	Key area of risk	Audit risk rating	Factors contributing to risk assessment
<i>Departmental</i> specialist military equipment \$86,847.1 million	Accuracy and valuation of specialist military equipment (SME) KAM (valuation)	Higher	<ul style="list-style-type: none"> the high degree of judgement applied by management to measure SME at fair value due to the highly specialised nature of these assets; the subjectivity in the valuation assessment due to the difficulty in obtaining the replacement costs of assets with a similar capability in the absence of an active market, the selection and application of appropriate indices, the determination and assessment of appropriate useful lives, and the identification of indicators of impairment; and the complexity and high degree of judgement in the cost attribution model that allocates accumulated capitalised costs on large scale acquisition projects between individual platform assets, associated spares and inventory.
<i>Departmental</i> inventories \$8,228.1 million	Existence and completeness of inventory balances (including explosive ordinance, fuel and general stores inventory) KAM	Moderate	<ul style="list-style-type: none"> variety and number of inventory items which are managed differently across a large number of geographically dispersed locations and through a number of IT systems.

Relevant financial statements line item	Key area of risk	Audit risk rating	Factors contributing to risk assessment
<i>Departmental</i> land and buildings \$24,134.2 million infrastructure, plant and equipment \$8,811.0 million heritage and cultural \$406.0 million	Accuracy and valuation of general assets	Moderate	<ul style="list-style-type: none"> high degree of management judgement required in respect of classifying project costs as capital or expense and the selection of valuation methods to measure fair value; the valuation of Defence's land, buildings, infrastructure, plant and equipment and heritage and cultural assets being dependent on assumptions that require significant management judgement. These include capitalisation rates, current replacement costs, discount rates, and conditions of the assets. Where observable market data is not available, the valuation is subject to a higher level of judgement; and the subjectivity in determining appropriate useful lives and the assessment of the financial impact of indicators of impairment.
<i>Administered</i> employee provisions \$118,060.4 million	Accuracy, valuation and disclosure of employee provisions KAM	Higher	<ul style="list-style-type: none"> the measurement of the provision being complex, requiring significant professional judgement in the selection of key long-term assumptions (including such matters as salary growth and discount rates, pension indexation rate, pension take-up rate and invalidity requirements) to which the valuation of these plans is highly sensitive; and detailed disclosure requirements for the presentation and disclosure of defined benefit plans.

Note: A moderate audit finding has been reported in respect of the application and documentation of judgements applied in determining the fair value of specialist military equipment.

Source: ANAO 2022–23 risk assessment, and Defence's budgeted financial statements for the year ended 30 June 2023.

3.5.8 The ANAO also considers the results of recent performance audits in identifying risks and designing an approach for the financial statements audit. The following performance audit reports were tabled during 2022–23 relevant to the financial management or administration of Defence:

- Auditor-General Report No.7 2022–23 *Defence's Administration of the Integrated Investment Program*; and

- Auditor-General Report No.12 2022–23 *Major Projects Report*.

3.5.9 The observations of these reports were considered in designing audit procedures to address areas considered to pose a lower risk of material misstatement. No significant changes were made to the designed audit procedures for the financial statements audit.

Audit results

3.5.10 The ANAO has completed its 2022–23 interim audit coverage, including an assessment of the controls relating to: IT general controls over the financial management information system and human resources information management system, as well as the testing of the operating effectiveness of the controls implemented to confirm the existence and completeness of inventory. Additionally, the ANAO has assessed Defence’s progress on addressing the moderate audit findings discussed below.

3.5.11 Audit procedures relating to 30 June 2023 balances for SME, general assets and administered employee provisions will be undertaken as part of the planned 2022–23 final audit.

3.5.12 The following table summarises the status of audit findings as at the end of the 2022–23 interim audit as reported by the ANAO.

Table 3.5.4: Status of audit findings raised by the ANAO

Category	Closing position (2021–22 final)	New findings (2022–23 interim)	Resolved findings (2022–23 interim)	Closing position (2022–23 interim)
B	4	1 ^a	–	5
Total	4	1	–	5

Note a: The minor audit finding relating to user access removal was identified during the 2021–22 audit. This audit finding has been reclassified to a moderate audit finding.

New moderate audit finding

User access removal

3.5.13 As part of interim audit testing, the ANAO identified instances where user accounts had not been locked when a user departed Defence and instances where users had logged into the system after separation from Defence. Defence advised that delays in the termination process may be responsible for the issues identified. Defence is undertaking a review of the nature of post termination access to determine if any of the access related to high-risk activities after termination.

3.5.14 The ANAO recommended that Defence implement controls to improve the timeliness of the termination process to ensure user access is removed when there is no longer a business requirement for the access. The ANAO also recommended Defence implement a process to detect and investigate post termination access, and undertake any remedial action required.

Unresolved moderate audit findings

Valuation of SME using the cost attribution model

3.5.15 To support its primary outcomes, Defence undertakes a number of high value and complex equipment acquisition projects that span multiple financial years. Judgement is applied to allocate capitalised costs between individual platform assets, associated spares and inventory. As at 30 June 2022, the reported value of SME assets under construction was \$18.6 billion.

3.5.16 Defence uses a cost attribution model (referred to by Defence as the Asset Valuation Model) to capture costs against applicable projects for SME assets under construction. The model uses a methodology to allocate project costs across the deliverables associated with the project. The Asset Valuation Model (AVM) is maintained in an excel spreadsheet and captures costs across the life cycle of the project, against multiple contracts and variations, many of which are recorded in a foreign currency. The AVM captures both budgeted and actual costs.

3.5.17 The ANAO evaluated the AVM and approval of cost allocations related to SME assets under construction. The ANAO identified internal control weaknesses in the methodology used by Defence. These included:

- (a) limited policies and procedures outlining the approach to developing, maintaining, and recording transactions against the AVM;
- (b) the use of excel spreadsheets to record the AVM transactions, which have no evidenced controls or protection to prevent the accidental editing or deletion of data; and
- (c) limited quality assurance mechanisms that could be relied upon to provide assurance over the asset allocations derived from the AVM.

Additionally, the ANAO noted that Defence does not capture employee-related costs as part of its asset under construction projects and that there were no systems or processes in place to identify the time spent by officers on specific projects. The ANAO's analysis of project employee costs estimated this to understate asset capitalisations by \$62.7 million in 2021–22.

3.5.18 The weaknesses noted increase the risk that the valuation of SME assets under construction and the associated depreciation expense are misstated in the financial statements.

3.5.19 The ANAO recommended that Defence:

- (a) consider the development of an IT solution to transition project management from excel spreadsheets or consider ways to implement controls to reduce the risks associated with unintended or unauthorised changes to the spreadsheets;
- (b) develop guidelines, policies and procedures to assist project managers with the development, maintenance and recording of transactions associated with the cost attribution model. The guidelines should also aim to increase consistency across projects, where appropriate;
- (c) implement quality assurance processes to provide assurance for financial reporting purposes;
- (d) develop and implement a year-end close process to ensure that projects are up to date and complete for reporting as at 30 June. This should include examining the appropriateness of using budget figures to adjust asset roll-out costs; and
- (e) consider implementing a time recording system to capture employee costs associated with each project. Costs should be capitalised to projects in accordance with AASB 116 Property, Plant and Equipment

3.5.20 Defence has continued to make progress in addressing the ANAO's recommendations, including through:

- revising its suite of policies and procedures governing SME project financial management across the Department and implementing the Defence Project Accounting Manual (DPAM)

with effect from 1 July 2022. The DPAM will apply to all capital projects, and is being progressively applied to existing projects;

- mandating that all projects will apply a standardised Project Capitalisation Plan that will capture the accounting judgements and arrangements underpinning the financial management of the project, the core deliverables, including the cost allocation methodology applicable to rolled out assets, and a budget management plan;
- implementing new compliance requirements and developing a user guide to capture roles and responsibilities to ensure a consistent methodology across projects;
- engagement of an external provider to perform compliance activities over projects. The ANAO has been advised that no significant issues have been identified, but almost half of projects reviewed were missing required documentation. Defence is providing further communication to project managers about the importance of maintaining proper documentation; and
- consideration of the implementation of a time recording system to capture employee costs associated with each project. Defence has advised that new functionality will be considered as part of the Defence ERP implementation that will support the reporting of APS and ADF workforce costs that can be capitalised as part of non-financial assets. For 2022–23, Defence will continue to estimate its employee costs using a manual process.

3.5.21 The ANAO will continue to review Defence’s progress in implementing the DPAM as well the remediation and quality assurance activities being undertaken across SME assets under construction projects as part of the planned 2022–23 final audit.

Weaknesses around the governance of ADF health services

3.5.22 The provision of health services to ADF members is managed under a contract with a service provider and includes two broad categories of charges covering off-base and on-base services. As part of the 2020–21 audit, the ANAO identified weaknesses associated with the processes implemented by Defence to confirm the accuracy and validity of the service provider’s monthly invoices.

3.5.23 The ANAO recommended Defence:

- (a) examine and strengthen the design of processes to provide assurance over the accuracy and validity of the health service payments;
- (b) extend assurance activities to include on-base services; and
- (c) complete assurance activities in a timely manner and escalate issues to an appropriate level of management to ensure that issues can be dealt with promptly and recoveries initiated where required.

3.5.24 Defence has continued to make progress in addressing the ANAO’s recommendations and advised that it had substantially addressed each recommendation. Work is continuing with the timely completion of assurance activities and Defence continues to update and review the invoicing process to improve the consistency of its processes. Defence is also developing an automated audit tool to support ongoing assurance and compliance work over on-base and off-base services. The ANAO will review Defence’s progress in addressing the recommendations during the planned 2022–23 final audit.

3.5.25 The ADF health services contract is currently subject to a performance audit, which is expected to table in May 2023.

Management of privacy data

3.5.26 Management of personally identifiable data is a responsibility of all Australian Government entities subject to the *Privacy Act 1988*. Under the Act, various supplementary directions such as the Australian Government Agencies Privacy Code (the Code) and the Australian Privacy Principles (APP) define an entity's responsibility around the collection, use, storage and disclosure of personal information.

3.5.27 As part of the 2020–21 audit, the ANAO reviewed Defence's privacy framework and observed that:

- (a) significant programs related to the management of personally identifiable information were outdated or scheduled for reviews that had not yet occurred;
- (b) privacy impact assessments were not stored in an accessible format and were not searchable to discover known risks and impacts;
- (c) there was no consistent data dictionary or data governance applied to allow for the discovery of specific data types across disparate applications and networks;
- (d) information on historical data breaches was inconsistent across Defence, with no central repository or register to report against strategic risks; and
- (e) compliance activities to ensure Defence was meeting the requirements were either not able to be performed or were not performed in a timely manner.

3.5.28 Defence was unable to provide evidence that personally identifiable information was being managed appropriately. The ANAO also identified that Defence had limited ability to discover systems that contain information that would be classified as personally identifiable information, as well as no systematic method for tracking changes, access or distribution of personally identifiable information. These weaknesses increase the risk that privacy data may be accessed or modified by those without authorisation to do so, and discovery of this inappropriate activity may not be timely or accurate.

3.5.29 The ANAO recommended that Defence:

- review its data governance framework and address control weaknesses surrounding the collection, use, storage and disclosure of personal information;
- establish a digital repository to index or record the locations, types of data, systems and other critical information relating to the management of personally identifiable information; and
- report regularly against compliance and application of the Privacy Policy as well as key indicators from the Code and APPs.

3.5.30 Defence has developed a range of support materials to assist Defence's groups and services with the collection, use and storage of privacy data. Defence has also developed training which is expected to roll out to Defence staff and contractors during 2023. Defence also advised that it continues to make progress in addressing the ANAO's recommendations through:

- an Interim Data Asset Register that has been developed, containing over 350 data assets from the majority of Defence's groups and services, and will help inform the design phase

- of an Enterprise solution which is being developed as part of the One Defence Data project currently underway; and
- adoption of the Office of the Australian Information Commissioner's Privacy Management Plan framework; and
- a planned assessment of the privacy landscape within Defence, the outcome of which will be reported to Defence's Executive.

The ANAO will review evidence provided by Defence during the 2022–23 final audit.

Weaknesses around the disposal of assets and inventory

3.5.31 During 2018–19, Defence was unable to provide appropriate documentation in a timely manner in relation to the disposal of buildings. In 2019–20 and 2020–21, the ANAO found examples of asset disposals occurring in the IT system after the physical disposal of the asset. During 2021–22, the ANAO continued to observe issues relating to the timeliness of asset disposals. Examples where the disposal process was not undertaken in a timely manner included:

- (a) assets that were gifted to the Ukraine government were disposed of before the disposal paperwork had been formally completed and approved and the assets had not been removed from the asset register;
- (b) Bushmasters that were destroyed prior to the sign-off of the disposal paperwork, and a number of Bushmasters that were not removed from the asset register until six months after their disposal; and
- (c) an aircraft that was written off in October 2021, but was still recorded as an asset as at 30 June 2022.

The Defence Finance Group was required to perform manual interventions to ensure the accounting records had been appropriately updated as the disposals process was delayed.

3.5.32 Defence has advised it is investigating a range of solutions from improving communication and education within its service groups and the possibility of an automated IT solution to assist with improving the timeliness of completing disposal paperwork and the removal of assets from the asset register. Defence has advised that assets gifted to the Ukraine government and Bushmasters have now been removed from the asset register. The ANAO will review Defence's progress in addressing the weaknesses previously identified during the 2022–23 final audit.

Conclusion

3.5.33 At the completion of the interim audit, and except for the findings outlined above, the ANAO identified that key elements of internal control were operating effectively to provide reasonable assurance that Defence will be able to prepare financial statements that are free from material misstatement. The effective operation of these controls for the full financial year will be assessed in conjunction with additional audit testing during the 2022–23 final audit.

Comments on non-material entities in the Defence Portfolio relating to the 2021–22 financial statements audits

Army and Air Force Canteen Service

3.5.34 The Army and Air Force Canteen Service (AAFCANS) was established to provide goods, facilities and services to members of the Defence community. AAFCANS operates food services and facilities on 27 Army and Air Force bases and joint Australian Defence Force facilities throughout Australia.

3.5.35 The 2021–22 financial statements audit was delayed because a number of emerging issues were identified across the entity by the ANAO.

Audit results

3.5.36 The following table summarises the status of audit findings as at the end of the 2021–22 interim audit as reported by the ANAO.

Table 3.5.5: Status of audit findings raised by the ANAO

Category	Closing position (2020–21)	New findings (2021–22)	Findings resolved (2021–22)	Closing position (2021–22)
A	–	1	–	1
B	–	1	–	1
L1	–	1	–	1
Total	–	3	–	3

New significant audit finding

Key management personnel disclosures

3.5.37 Key management personnel (KMP) disclosures are required in the financial statements in accordance with AASB 124 *Related Party Disclosures* and the Financial Reporting Rule (FRR). The KMP note disclosure is considered material by nature. In addition to the disclosures in the financial statements, entities are also required to include executive remuneration disclosures in the annual report in accordance with RMG 138 *Commonwealth Entities' Executive Reporting Guide for Annual Reports*.

3.5.38 In the lead up to the final audit phase, the ANAO identified a number of material misstatements in the 2020–21 KMP disclosures. The misstatements included:

- seven senior executives who were not responsible for planning, directing and controlling the activities of the entity;
- five non-executive directors on the Board who were incorrectly excluded from the note disclosure;
- the acting chief executive officer's remuneration for the period from September to December 2020 was incorrectly excluded from the note disclosure; and
- errors were identified in the calculation of remuneration paid to the former and current Managing Directors.

3.5.39 In addition, the ANAO identified:

- that two current Board members had not been validly appointed under the Army and Air Force (Canteen) Regulation 2016;
- an overpayment of termination benefits was made to the former Managing Director;
- a performance bonus was approved by the Board to a key management personnel despite key performance indicators not being met; and
- the executive remuneration tables and remuneration policies required to be disclosed in the Annual Report under RMG 138 *Commonwealth Entities' Executive Reporting Guide for Annual Reports* had not been disclosed.

3.5.40 These errors resulted in a significant restatement of the key management personnel note disclosure and the inclusion of narrative disclosures to explain the changes to the note. The ANAO has made recommendations to AAFCANS in relation to policies and procedures that should be in place to reduce the risk of future misstatements occurring.

3.5.41 The asset revaluation reserve could not be reconciled, and AAFCANS could not determine whether there was sufficient reserve to record the revaluation decrements against the relevant class of asset. The decrements were recorded through profit and loss, with only the increments recorded in the asset revaluation reserve. In addition, AAFCANS was not applying the financial framework correctly as the majority of its assets were held at cost less accumulated depreciation, despite a decision by management to apply a revaluation model to its property, plant and equipment.

New significant legislative breach

Breach of section 41 of the PGPA Act

3.5.42 The PGPA Act confers on accountable authorities various responsibilities and powers to promote high standards of accountability and performance. They are also responsible for the financial management of the entity and compliance with reporting requirements. Section 41 of the PGPA Act requires entities to maintain accounts and records that properly explain the entity's transactions and financial position.

3.5.43 The ANAO identified that AAFCANS was unable to produce accounts and records in relation to its asset revaluation reserve. The ANAO recommended AAFCANS implement appropriate controls designed to ensure compliance with the PGPA Act, the FRR and to enable the preparation of the financial statements using information that can be properly supported with accounts and records.

New moderate audit finding

Control weaknesses around the asset revaluation reserve

3.5.44 Commonwealth entities are required to prepare their financial statements in accordance with the Financial Reporting Rule (FRR) and RMG 125 *Commonwealth Entities Financial Statements Guide*. The FRR at subsection 17(2) requires entities to measure property, plant and equipment at fair value in accordance with AASB 116 *Property, Plant and Equipment*.

3.5.45 The ANAO identified that AAFCANS did not have a process to reconcile its asset revaluation reserve and was unable to provide a breakdown of the balance by asset class. As a result, AAFCANS

did not record its asset valuation adjustments in its general ledger as it was unable to determine whether there was a revaluation reserve in which to offset the revaluation decrement.

3.5.46 The ANAO identified that AAFCANS did not have a process to reconcile its asset revaluation reserve and was unable to provide a breakdown of the balance by asset class. As a result, AAFCANS did not record its asset valuation adjustments in its general ledger as it was unable to determine whether there was a revaluation reserve in which to offset the revaluation decrement. The ANAO requested management undertake work to recreate the asset revaluation reserve so valuation adjustments could be properly recorded.

3.5.47 The ANAO assessed the treatment used by AAFCANS and has accepted the accounting treatment for the 2021–22 financial statements. AAFCANS will undertake additional work to finalise the reconciliation as the closing balance of the reserve will continue to impact future reporting periods.

Emphasis of matter

3.5.48 An Emphasis of Matter paragraph has been included in the 2021–22 auditor's report to draw users' attention to the restatement of comparative information presented in relation to Key Management Personnel remuneration due to errors in the disclosure in the prior period.

Royal Australian Air Force Welfare Trust Fund

3.5.49 The Royal Australian Air Force Welfare Trust Fund (the Fund) was established to provide financial assistance to Defence service personnel including concessional loans and grants, and a Group Life Insurance Scheme.

3.5.50 The 2021–22 financial statements audit was delayed because the Fund sought legal advice regarding a potential breach of the Corporations Act in relation to a requirement to hold an AFS licence for an insurance product that the Fund offers to Defence members. It was further delayed while the Fund sought an exemption from ASIC from the requirement to hold an AFS licence. ASIC did not agree that an exemption was appropriate given the Trust Fund already has the benefit of existing ASIC relief from the requirement to hold an AFS licence, which came into effect in 2008. ASIC also advised the Fund that it would not take action against the Fund for failing to hold an AFS licence for the period prior to 2008.

Audit results

3.5.51 The following table summarises the status of audit findings as at the end of the 2021–22 interim audit as reported by the ANAO.

Table 3.5.6: Status of audit findings raised by the ANAO

Category	Closing position (2020–21)	New findings (2021–22)	Findings resolved (2021–22)	Closing position (2021–22)
B	–	1	–	1
L1	–	1	–	1
Total	–	2	–	2

New moderate audit finding

Governance risk

3.5.52 Audit committees are integral to good corporate governance of Commonwealth entities. A good audit committee can significantly assist the accountable authority in meeting their duties and responsibilities under the *Public Governance, Performance and Accountability Act 2013* (PGPA Act).

3.5.53 The Fund currently has one Audit Committee member who is a Trustee. Under law, Trustees are responsible for managing the affairs of a Trust. The *Services Trust Funds Act 1947* outlines the responsibilities of Trustees.

3.5.54 The Fund does not have employees who are undertaking managerial functions. Instead, the Fund employs staff who perform duties that would be described as clerical or administrative in nature. The staff of the Fund have not been included in the Key Management Personnel note disclosure.

3.5.55 The lack of independence between management, the audit committee and the Board of Trustees presents a governance risk as the Board is performing all functions that would usually be split between these roles. A governance risk may result in inadequate and poorly designed systems of internal control, risks around the financial and performance reporting undertaken by the entity, and non-compliance with relevant laws and regulations. The risk is further exacerbated by the absence of any independent oversight through an internal audit function.

3.5.56 The ANAO recommended that all Trustees who are serving as members of the Audit Committee are replaced with independent officers. The Audit Committee Charter should be updated to reflect that Trustees cannot be appointed to the Audit Committee.

New significant legislative breach

Breaches of the *Services Trust Funds Act* – loan made to dependent of trustee

3.5.57 The Royal Australian Air Force Welfare Trust Fund was established to provide concessional loans to current and ex-air force personnel to assist with small expenditure items. Interest free loans of up to \$5,500 may be approved where eligibility criteria has been met. In accordance with the *Services Trust Funds Act 1947*, a person who is a Trustee or a dependant of a Trustee of any fund shall not receive benefits from the Fund. A dependant is defined in the *Services Trust Funds Act 1947* and includes dependants past and present.

3.5.58 The ANAO identified that a loan of \$1,500 (plus a \$13.84 contribution fee) had been made to the son of a Trustee. The Trustee's son also financially contributed to the Fund's 'Group Life Scheme' which provides a payout for untimely death. The Trustee (and his immediate family) are beneficiaries of any payout. Both transactions are in contravention of paragraph 14 of the *Services Trust Funds Act 1947*, which prohibits a person who is a Trustee or a dependant of a Trustee from receiving benefits from the Fund.

3.5.59 Trustees are key management personnel of the Fund, and the loan made to the son and the potential benefit accruing from the Group Life Scheme, both constitute related party transactions requiring disclosure in the financial statements.

3.5.60 The ANAO recommended that the Fund strengthens its policies and procedures to prevent this occurring and ensures that all Trustees and support staff continue to be aware of their

obligations under the *Services Trust Funds Act 1947*. The ANAO also discussed with the Fund the requirement to disclose the transactions as related party transactions in the financial statements. The Fund has appropriately disclosed the transactions.

3.6 Department of Veterans' Affairs

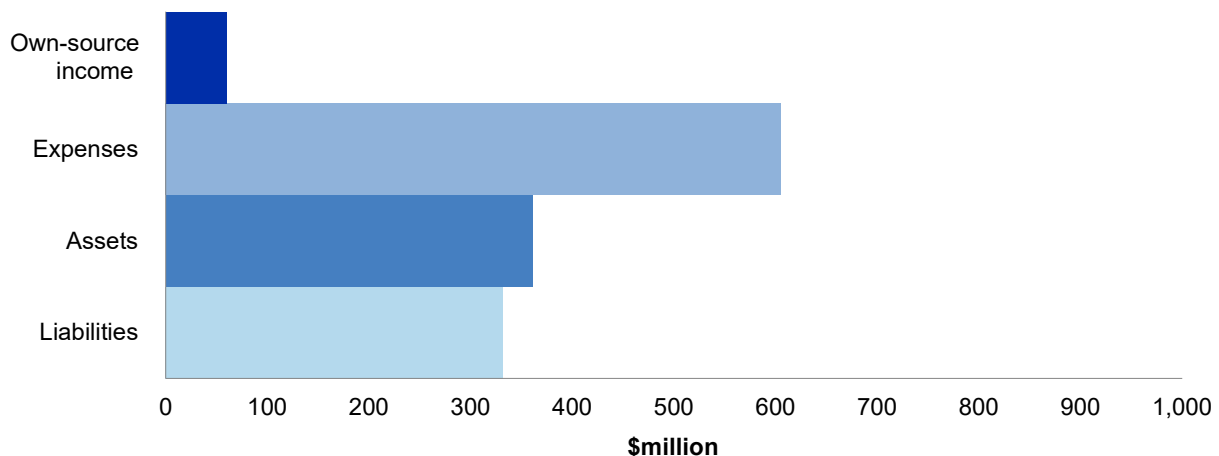
Overview

3.6.1 The Department of Veterans' Affairs (DVA) is the primary service delivery entity with responsibility for implementing programs to assist the veteran and ex-service communities, including repatriation, rehabilitation and compensation, and war graves.

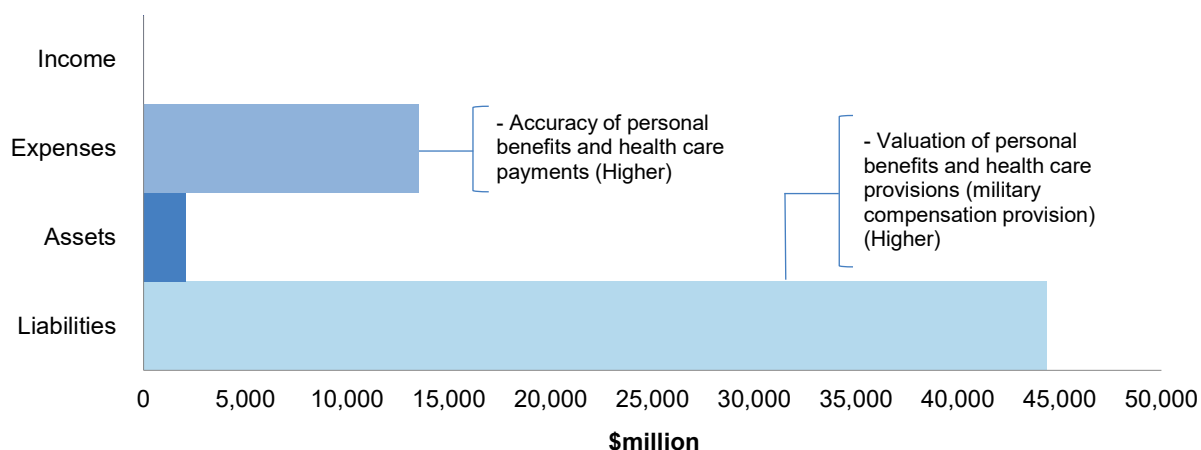
3.6.2 DVA is responsible for developing and implementing programs to assist the veteran and ex-service communities. This includes granting pensions, allowances and other benefits, and providing treatment under the *Veterans' Entitlements Act 1986*; determining and managing claims relating to defence service under the *Safety, Rehabilitation and Compensation (Defence-related Claims) Act 1988*; the administration of benefits and arrangements under the *Military Rehabilitation and Compensation Act 2004*; administering the *Defence Service Homes Act 1918* and the *War Graves Act 1980*; and conducting commemorative programs to acknowledge the service and sacrifice of Australian servicemen and women.

3.6.3 Figure 3.6.1 and Figure 3.6.2 below show the 2022–23 departmental and administered financial statements items reported by DVA and the key areas of financial statements risk.

Figure 3.6.1: Key departmental financial statements items and areas of financial statements risk



Source: ANAO analysis and DVA's budget as reported in the 2022–23 Portfolio Budget Statements.

Figure 3.6.2: Key administered financial statements items and areas of financial statements risk

Source: ANAO analysis and DVA's budget as reported in the 2022–23 Portfolio Budget Statements.

3.6.4 The ANAO's audit approach identifies key areas of risk that have the potential to impact on DVA's financial statements. The ANAO's risk assessment process considers the nature of the financial statements items and an understanding of DVA's environment and governance arrangements, including its financial reporting regime and system of internal control.

3.6.5 In light of the key areas of risk and the ANAO's understanding of the operations of DVA, the ANAO has assessed the overall risk of material misstatement in the 2022–23 financial statements audit as moderate.

Key financial statements items

3.6.6 Annual appropriation funding of \$538.1 million (departmental) and \$293.3 million (administered) was provided to DVA in 2022–23 to support the achievement of the entity's outcomes.⁹⁰ DVA was also budgeted to receive special appropriation funding of \$11,314.2 million.⁹¹

3.6.7 Table 3.6.1 and Table 3.6.2 below provide a summary of the key 2022–23 departmental and administered estimated financial statements items.

Table 3.6.1: Key expenses and total own-sourced income

Expenses and own-source income	Departmental budget (\$m) 2022–23	Administered budget (\$m) 2022–23
Total expenses	605.3	13,535.4
Employee benefits	288.5	10.8
Grants	–	57.8
Suppliers	227.7	–

90 Supply Act (No. 1) 2022–2023; Supply Act (No. 2) 2022–2023; Supply Act (No. 3) 2022–2023; Supply Act (No. 4) 2022–2023; Appropriation Act (No. 1) 2022–2023; and Appropriation Act (No. 2) 2022–2023.

91 Part 1: Budget Estimate 2022–23, Special Appropriations Table, Agency Resourcing, Budget Paper No. 4, 2022–2023.

Expenses and own-source income	Departmental budget (\$m) 2022–23	Administered budget (\$m) 2022–23
Depreciation and amortisation	47.8	2.9
Personal benefits	–	7,150.5
Healthcare payments	–	4,232.4
Payments to corporate entities	–	42.8
Other	41.3	2,038.2
Total own-source income	60.2	18.4
Net premium revenue	47.5	–
Rendering of services	7.9	–
Other	4.8	18.4
Net (cost of) services	(545.1)	(13,517.0)

Source: DVA's 2022–23 budget as reported in the 2022–23 Portfolio Budget Statements.

Table 3.6.2: Key assets and liabilities

Assets and liabilities	Departmental budget (\$m) 2022–23	Administered budget (\$m) 2022–23
Total assets	360.8	2,087.9
Cash and cash equivalents	8.3	106.9
Investments	53.6	1,815.2
Appropriation receivables	36.2	–
Trade and other receivables	75.3	97.2
Intangibles	51.6	–
Land and buildings	133.2	–
Other	2.6	68.6
Total liabilities	331.9	44,390.3
Suppliers payables	39.0	–
Personal benefits	–	47.1
Other payables	44.4	64.2
Leases	110.1	–
Employee provisions	74.4	3.4
Personal benefits provisions	–	23,081.2
Healthcare and other provisions	–	21,194.4
Other provision	64.0	–

Assets and liabilities	Departmental budget (\$m) 2022–23	Administered budget (\$m) 2022–23
Net assets/(liabilities)	28.9	(42,302.4)

Note: DVA's estimated average staffing level for 2022–23 is 2,617.

Source: DVA's 2022–23 budget as reported in the 2022–23 Portfolio Budget Statements.

Key areas of financial statements risk

3.6.8 The ANAO undertakes appropriate audit procedures on all material items and focusses audit effort on those areas that are assessed as having a higher risk of material misstatement. The ANAO also assesses the information technology (IT) general and application controls for key systems that support the preparation of DVA's financial statements. Areas highlighted for specific audit coverage in 2022–23 are provided in Table 3.6.3.

Table 3.6.3: Key areas of financial statements risk

Relevant financial statements line item	Key area of risk	Audit risk rating	Factors contributing to risk assessment
<i>Administered</i> personal benefits provisions \$23,081.2 million healthcare and other provisions \$21,194.4 million	Valuation of personal benefits and health care (military compensation) provisions KAM	Higher	<ul style="list-style-type: none"> judgements involved in determining the assumptions and calculations underpinning the actuarial assessment of the military compensation provision, including assumptions relating to future trends in medical costs, permanent incapacity, and inflation rates; increasing value of the provision as an unfunded liability; and completeness of data used to derive the valuation.

Relevant financial statements line item	Key area of risk	Audit risk rating	Factors contributing to risk assessment
<i>Administered</i> personal benefits \$7,150.5 million health care payments \$4,232.4 million	Accuracy of personal benefits and health care payments	Higher	<ul style="list-style-type: none"> • complexity of overseeing and maintaining a large number of IT business systems which are supported by the shared services provider, Services Australia; • complexity of legislation applicable to individual claims; • additional pressures due to Royal Commission recommendations for claim processing; • reliance on accurate and complete veteran provided information; and • reliance on a risk-based quality assurance program to identify errors and initiate debt recovery arrangements in individual claims.

Source: ANAO 2022–23 risk assessment, and DVA's budgeted financial statements for the year ended 30 June 2023.

3.6.9 The ANAO also considers the results of recent performance audits in identifying risks and designing an approach for the financial statements audit. No performance audits have been tabled to date in 2022–23 relevant to the financial management or administration of DVA.

Audit results

3.6.10 The ANAO has completed its 2022–23 interim audit coverage, including an assessment of the controls relating to: cash; appropriations; supplier expenses; employee benefits and administered personal benefit and health care payments.

3.6.11 Additional audit procedures relating to: testing of IT general and application controls; accuracy of administered personal benefit and health care payments including payments to public and private hospitals; and review of the valuation of the personal benefits and health care (military compensation) provisions will be undertaken as part of the 2022–23 final audit.

3.6.12 The following table summarises the status of audit findings as at the end of the 2022–23 interim audit as reported by the ANAO.

Table 3.6.4: Status of audit findings raised by the ANAO

Category	Closing position (2021–22 final)	New findings (2022–23 interim)	Resolved finding (2022–23 interim)	Closing position (2022–23 interim)
A	1	—	1 ^a	—
B	7	1 ^a	3 ^b	5
Total	8	1	4	5

Note a: The significant audit finding relating to Military Compensation Scheme Provision Methodology was identified during the 2021–22 audit. This audit finding was downgraded to a moderate audit finding during the 2022–23 interim audit.

Note b: The moderate audit finding relating to User Revalidations was identified during the 2020–21 audit. This audit finding was downgraded to a minor audit finding.

Downgraded significant audit finding

Military Compensation Scheme Provision

3.6.13 The Military Compensation Scheme (MCS) provision is assessed at the end of each financial year and recognises DVA's liability in relation to the *Military Rehabilitation and Compensation Act 2004* (MRCA) and the *Safety, Rehabilitation and Compensation (Defence-related Claims) Act 1988* (SRCA). The calculation of the provision is complex and involves a number of key assumptions and judgements, including assumptions relating to future trends in medical costs, permanent incapacity, and inflation rates.

3.6.14 During the 2021–22 financial statements audit, the ANAO noted the adjustments made each year to the provision over the previous six years and formed a view that there was a significant risk that DVA's initial valuation of the provision for 2021–22 may again be understated. In response to the ANAO's position on the value of the provision, DVA applied an additional risk adjustment of \$3.6 billion to the value of the provision for the year ended 30 June 2022. The ANAO recommended that DVA develop a comprehensive oversight policy and procedures covering risk assessment, data, assumptions, scenario analysis and involvement of key staff who understand the underlining policy and operational matters related to the provision. The ANAO also recommended that DVA undertake further work in relation to the risk adjustment to ensure it maximises DVA's management of the level of uncertainty in the provision.

3.6.15 DVA has developed a Military Compensation Scheme (MCS) Provision Valuation Guide outlining key components of the valuation process and referencing other documents detailing key decisions and procedures. The finding has been downgraded from one that poses a significant risk to a moderate risk in recognition of the work undertaken by DVA to address issues identified in relation to the MCS provision. However, there are components of the valuation process that still require further analysis or documentation. In addition, there are some components the ANAO will not be able to verify until the valuation is undertaken at 30 June 2023. The areas requiring improvement include risk adjustment, data management, analysis of assumptions, alternative scenarios consideration and use of business knowledge related to policy and operational matters associated with the MCS.

Resolved moderate audit findings

User revalidations

3.6.16 A key aspect of system user management that protects systems and applications from exploitation is a regular user revalidation process that confirms only legitimate users have access to DVA systems and applications. During the 2020–21 financial statements audit, the ANAO identified that DVA did not have a process in place to revalidate user access for seven systems that support the financial statements. DVA implemented processes and changed some existing processes in 2021–22, however deficiencies were noted by the ANAO on review and some revalidations were still outstanding.

3.6.17 The ANAO accepts that the deficiencies in the design of the process have been remediated and that testing in 2022–23 of revalidation in five systems has not identified any issues. As a result of the testing completed to date, the ANAO has assessed the residual risk as low and as such the finding has been downgraded to a minor audit finding.

Monitoring of High-Risk Activity in IT Systems

3.6.18 DVA reviews all activities in IT systems that are classified as high risk or a potential indicator of fraud. A software tool identifies this activity for review. During the 2020–21 financial statement audit, the ANAO identified that, after a major IT change was implemented, the tool in place to monitor high-risk activity in DVA's IT systems was no longer able to correctly identify high-risk activity for review. DVA subsequently made changes to ensure that the software tool could correctly identify high risk activity and retrospectively reviewed all high- risk activity. The ANAO is satisfied that this control is now operating effectively. DVA have stated that they will ensure appropriate security and fraud considerations are incorporated in all future IT system development.

QUASARS Claim File Population Reports

3.6.19 QUASARS is a system used by DVA to select and perform quality assurance testing of decisions and payments made in relation to income support and rehabilitation and compensation. The ANAO identified that DVA did not have any documented processes or procedures in place to confirm completeness, accuracy and relevance of information extracted from business systems and uploaded into QUASARS. The ANAO has confirmed that controls over the completeness, accuracy and relevance of information extracted from business systems and uploaded into QUASARS have been implemented.

Unresolved moderate audit findings

Security Governance – Monitoring Implementation of Controls

3.6.20 During the 2021–22 audit, the ANAO noted deficiencies in the governance and monitoring controls implemented by DVA to provide assurance that processes are managed to address business risks and promptly detect when the controls are not operating as designed.

3.6.21 The ANAO noted several instances that indicated DVA's governance and monitoring processes were not effective in detecting controls that had not been appropriately implemented or were not operating effectively to address identified business risks. The ANAO recommended an effective governance and assurance framework over security governance to ensure implementation and operation of controls to manage identified business risk. DVA also need to ensure that documentation of controls is up-to-date and address specific deficiencies noted by the ANAO.

3.6.22 DVA is expected to provide evidence for the remediation of this finding in June 2023. We will assess the remediation work upon receiving the relevant documentation from DVA.

Personal Benefits – Incompatible Access Monitoring

3.6.23 DVA has identified a business risk that users are required for business reasons to have access that would allow them to bypass segregation of duties controls. DVA process for managing this risk was not operating effectively during 2021–22. DVA is expected to provide evidence for the remediation of this finding in June 2023. We will review the remediation work upon receiving the relevant documentation from DVA.

Process Direct Implementation

3.6.24 In November 2020, income and student support payment processing functions were transferred to the Process Direct system. The move to Process Direct was a component of the Veteran Centric Reform program.

3.6.25 During the final audit phase of the 2020–21 financial statements audit, weaknesses were identified in establishing appropriate security and data migration processes including key system roll-out documentation and performance of relevant testing for data migration.

3.6.26 During the interim audit, DVA provided the details of the remediation work to resolve the issue. We concluded that further work is required by DVA to address the risks in respect to security. DVA is expecting to complete the work by the end of the financial year.

User terminations

3.6.27 During the 2020–21 audit, the ANAO identified weaknesses in DVA's controls relating to terminated users. Controls to remove access on termination were not effective, and there were no processes in place to identify users who had access to systems, applications and/or data repositories after cessation of employment or contract. Consequently, there was also no process to monitor activities undertaken by any users after access should have been removed.

3.6.28 DVA introduced technology that enabled DVA to action terminations more effectively. DVA also developed a process to identify, assess and investigate (where appropriate), any instances where system access post termination results in risk to DVA. However, the ANAO identified during 2021–22 financial statements audit that a number of systemic control failures relating to: unauthorised approval of system access post-termination; lack of investigation of activities performed post-termination, including any potential inappropriate sharing, downloading, or manipulation of confidential DVA information; and email accounts not checked for the forwarding of confidential or personally identifiable information outside of DVA.

3.6.29 DVA provided details of its remediation work during the 2022–23 interim audit. The audit testing is in progress and is not sufficiently advanced to reach a conclusion. ANAO plans to complete the work necessary to verify that DVA has remediated this finding prior to 30 June 2023.

Conclusion

3.6.30 At the completion of the interim audit, and except for the findings outlined above, the ANAO identified that key elements of internal control were operating effectively to provide reasonable assurance that DVA will be able to prepare financial statements that are free from material misstatement. The effective operation of these controls for the full financial year will be assessed in conjunction with additional audit testing during the 2022–23 final audit.

3.7 Department of Education

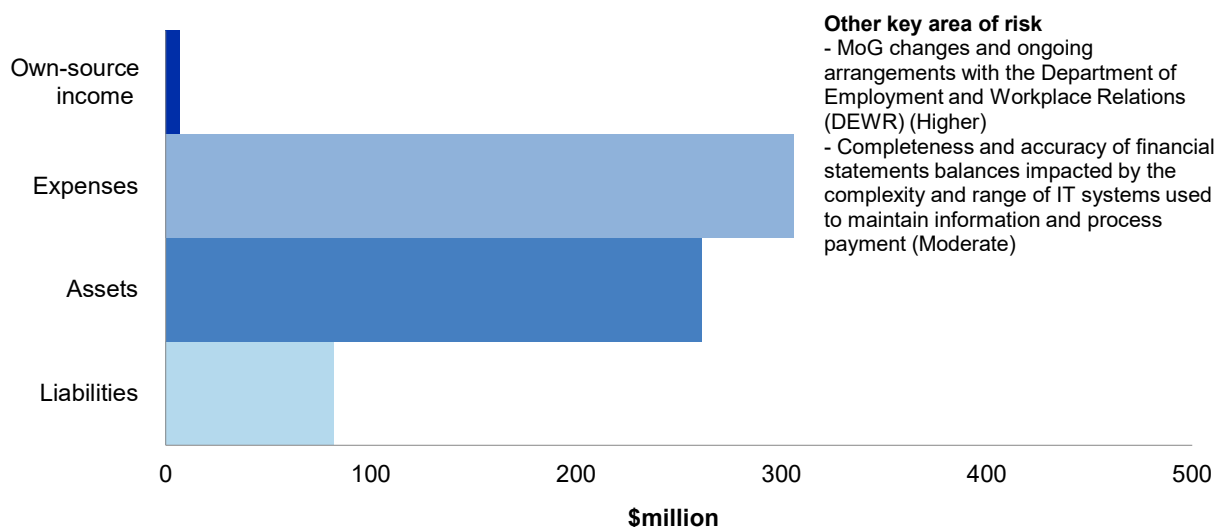
Overview

3.7.1 The Department of Education (Education) works with state and territory governments, other government entities and a range of stakeholders to ensure Australians can experience the social wellbeing and economic benefits that quality education provides. The department supports the provision of services, including early childhood education and care, schooling and higher education.

3.7.2 Following the Administrative Arrangement Orders of 2 June 2022, which came into effect on 1 July 2022, the previously named Department of Education, Skills and Employment was renamed to the Department of Education, with employment and skills functions transferred to the newly created Department of Employment and Workplace Relations (DEWR).

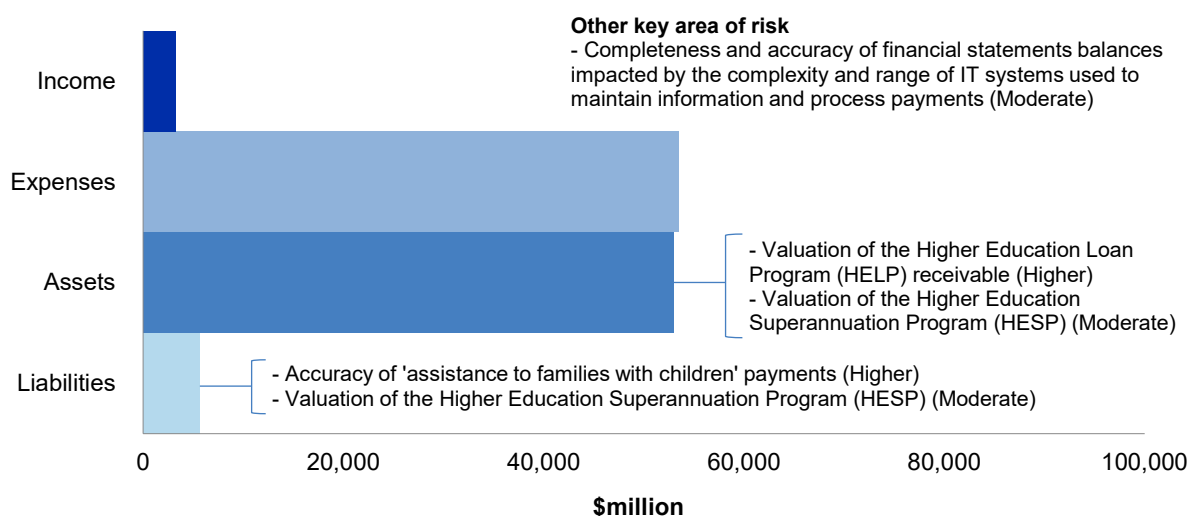
3.7.3 Figure 3.7.1 and Figure 3.7.2 below show the 2022–23 departmental and administered financial statements items reported by Education and the key areas of financial statements risk.

Figure 3.7.1: Key departmental financial statements items and areas of financial statements risk



Source: ANAO analysis and Education's budget as reported in the 2022–23 Portfolio Budget Statements.

Figure 3.7.2: Key administered financial statements items and areas of financial statements risk



Source: ANAO analysis and Education's budget as reported in the 2022–23 Portfolio Budget Statements.

3.7.4 The ANAO's audit approach identifies key areas of risk that have the potential to impact on Education's financial statements. The ANAO's risk assessment process considers the nature of the financial statements items and an understanding of Education's environment and governance arrangements, including its financial reporting regime and system of internal control.

3.7.5 In light of the key areas of risk and the ANAO's understanding of the operations of Education, the ANAO has assessed the overall risk of material misstatement in the 2022–23 financial statements audit as high. The engagement risk has increased from moderate to high for 2022–23 as a result of the machinery of government changes and the ongoing arrangements that Education has in place with the Department of Employment and Workplace Relations.

Key financial statements items

3.7.6 Annual appropriation funding⁹² of \$313.8 million (departmental) and \$1,523.4 million (administered) was provided to Education in 2022–23 to support the achievement of the entity's outcomes.⁹³ Education was also budgeted to receive special appropriation funding of \$55,477.9 million.⁹⁴

3.7.7 Table 3.7.1 and Table 3.7.2 below provide a summary of the key 2022–23 departmental and administered estimated financial statements items.

92 Includes transfers of annual appropriations via determinations made under section 75 of the *Public Governance, Performance and Accountability Act 2013*.

93 *Supply Act (No. 1) 2022–2023; Supply Act (No. 2) 2022–2023; Supply Act (No. 3) 2022–2023; Supply Act (No. 4) 2022–2023; Appropriation Act (No. 1) 2022–2023; and Appropriation Act (No. 2) 2022–2023*.

94 Part 1: Budget Estimate 2022–23, Special Appropriations Table, *Agency Resourcing, Budget Paper No. 4, 2022–2023*.

Table 3.7.1: Key expenses and total own-sourced income

Expenses and own-source income	Departmental budget (\$m) 2022–23	Administered budget (\$m) 2022–23
Total expenses	306.3	53,446.0
Employee benefits	180.1	–
Suppliers	120.8	216.2
Subsidies	–	179.6
Personal benefits	–	10,690.9
Grants	–	38,124.1
Fair value losses	–	3,235.3
Depreciation and amortisation	5.4	0.1
Interest	–	218.7
Finance costs	–	781.1
Total own-source income	7.5	3,269.4
Sale of goods and rendering of services	6.2	–
Other taxes	–	6.1
Interest	–	3,201.8
Gains	–	–
Other	1.3	61.5
Net (cost of) services	(298.8)	(50,176.6)

Source: Education's 2022–23 budget as reported in the 2022–23 Portfolio Budget Statements.

Table 3.7.2: Key assets and liabilities

Assets and liabilities	Departmental budget (\$m) 2022–23	Administered budget (\$m) 2022–23
Total assets	261.3	52,932.1
Cash and cash equivalents	13.1	95.1
Trade and other receivables	112.1	49,914.8
Other investments	–	2,921.2
Other financial assets	–	–
Land and buildings	–	1.0
Property, plant and equipment	–	–
Intangibles	125.0	–
Other	11.1	–
Total liabilities	81.8	5,690.2

Assets and liabilities	Departmental budget (\$m) 2022–23	Administered budget (\$m) 2022–23
Suppliers	20.8	15.2
Other payables	1.0	3.8
Leases	–	0.9
Personal benefits	–	60.2
Grants	–	7.4
Personal benefits provision	–	583.3
Provision for grants	–	5,019.3
Employee provisions	60.1	–
Subsidies	–	–
Net assets	179.5	47,241.8

Note: Education's estimated average staffing level for 2022–23 is 1,261.

Source: Education's 2022–23 budget as reported in the 2022–23 Portfolio Budget Statements.

Key areas of financial statements risk

3.7.8 The ANAO undertakes appropriate audit procedures on all material items and focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. The ANAO also assesses the information technology (IT) general and application controls for key systems that support the preparation of Education's financial statements. Areas highlighted for specific audit coverage in 2022–23 are provided below in Table 3.7.3.

Table 3.7.3: Key areas of financial statements risk

Relevant financial statements line item	Key area of risk	Audit risk rating	Factors contributing to risk assessment
<i>Departmental and administered</i> all financial statements line items	Machinery of Government changes and ongoing arrangements with the Department of Employment and Workplace Relations (DEWR). KAM	Higher	<ul style="list-style-type: none"> Changes to the internal control environment, governance structure and supporting policies, procedures and financial reporting processes; Risks relating to ownership, completeness and accuracy of transactions and balances within the financial statements; The continuing shared IT infrastructure and operating environment; Interim configuration of the Financial Management Information System and Human Resources Information Management System to support both Education and DEWR.

Relevant financial statements line item	Key area of risk	Audit risk rating	Factors contributing to risk assessment
<i>Departmental and administered</i> all financial statements line items	Completeness and accuracy of financial statements balances impacted by the complexity and range of IT systems used to maintain information and process payments	Moderate	<ul style="list-style-type: none"> Large and complex IT environment with business applications processing a high volume of transactions; Many IT systems are bespoke or heavily customised; and Reliance on customised reports to prepare financial statements balances.
<i>Administered</i> Higher Education Loan Program (HELP) receivable (a component of trade and other receivables \$49,914.8 million) HELP loans fair value losses (a component of fair value losses \$3,235.3 million)	Valuation of the Higher Education Loan Program (HELP) receivable KAM	Higher	<ul style="list-style-type: none"> The balances of outstanding loans and impairment are derived from complex actuarial estimates and the estimate contains a degree of estimation uncertainty; The complexity involved in estimating future income of individuals that need to repay HELP debts, the timing of expected repayments and the amount of the loan not expected to be recovered; and Payment data is reliant on sources external to Education such as: the Australian Taxation Office; universities and other third parties.
<i>Administered</i> Child Care Subsidy personal benefits expenses \$10,690.9 million personal benefits payables \$60.2 million personal benefits provisions \$583.3 million	Accuracy of 'assistance to families with children' payments KAM	Higher	<ul style="list-style-type: none"> Complex legislation and administration arrangements that apply to child care personal benefits; Accounting and disclosure of year-end balances which are contingent on the lodgement of recipients income tax returns; Payments are reliant on self-assessed information provided by child care service providers and claimants; and The IT environment is highly dependent on external information systems which are administered by the Department of Social Services and Services Australia.

Relevant financial statements line item	Key area of risk	Audit risk rating	Factors contributing to risk assessment
<i>Administered</i> Higher Education Superannuation Program (HESP) receivable (a component of trade and other receivables \$49,914.8 million) grants provision \$5,019.3 million	Valuation of the Higher Education Superannuation Program (HESP) KAM	Moderate	<ul style="list-style-type: none"> The valuation of the HESP liability is subject to an actuarial estimation process and is highly sensitive to movements in discount factors and bond rates; and The valuation is complex and depends on the accurate provision of source data by universities.

Source: ANAO 2022–23 risk assessment, and Education’s budgeted financial statements for the year ended 30 June 2023.

Audit results

3.7.9 The ANAO has completed components of its 2022–23 interim audit coverage, including an assessment of the controls relating to: cash; payroll; the Commonwealth Grants Scheme; and recurrent schools funding the Higher Education Support Act block grants.

3.7.10 Audit procedures relating to IT general and application controls on key business systems, opening balances as a result of the AAOs, appropriations (including special accounts and special appropriations), review and assessment of year-end estimate balances relating to HESP and HELP, childcare subsidy expenses, administered grants, administered investments and compliance programs will be undertaken as part of the planned 2022–23 final audit.

3.7.11 The following table summarises the status of audit findings as at the end of the 2022–23 interim audit as reported by the ANAO.

Table 3.7.4: Status of audit findings raised by the ANAO

Category	Closing position (2021–22 final)	New findings (2022–23 interim)	Resolved findings (2022–23 interim)	Closing position (2022–23 interim)
B	1 ^a	1	–	2
Total	1	1	–	2

Note a: A moderate audit finding relating to timely removal of user access on termination was identified during the 2021–22 audit of the former Department of Education, Skills and Employment.

New moderate audit finding

Management of Machinery of Government (MoG) changes

3.7.12 In implementing the MoG changes, the ANAO has noted a number of areas where timeliness and the configuration of the FMIS and HRMIS has impacted on the financial reporting and audit of Education.

3.7.13 Transfers of employees between Education and DEWR by Department of Finance, as the service delivery organisation for human resources, have not followed appropriate processes due to the configuration of the HRMIS and FMIS. The ANAO observed delays in some key balance sheet reconciliations like appropriations and cash balances.

3.7.14 The ANAO has also identified that there was an absence of oversight by the Department for costs capitalised for intangibles by the DEWR as part of memoranda of understanding. However, the ANAO notes that work is being undertaken by Education and DEWR, as a result of the configuration of the HRMIS and FMIS, to correct transactions that have been incorrectly recorded.

Unresolved moderate audit finding

Timely removal of user access on termination

3.7.15 The ANAO identified instances where users had accessed the former Department of Education, Skills and Employment's systems after completion of their employment or contract. The ANAO noted that there were delays in completion of Exit Advice Notification which triggers a number of actions across the department, including the termination access to ICT networks and systems.

3.7.16 The department has implemented a standard operating procedure which reviews the separation process and sought to automate the separation process. The effectiveness of these processes are being assessed by the ANAO as part of interim audit phase.

Conclusion

3.7.17 At the completion of the interim audit, and except for the findings outlined above, the ANAO identified that key elements of internal control were operating effectively to provide reasonable assurance that Education will be able to prepare financial statements that are free from material misstatement. The effective operation of these controls for the full financial year will be assessed in conjunction with additional audit testing during the 2022–23 final audit.

3.8 Department of Employment and Workplace Relations

Overview

3.8.1 The Employment and Workplace Relations portfolio and Department of Employment and Workplace Relations (DEWR) were established on 1 July 2022 under the Administrative Arrangements Order issued by the Australian Government on 1 June and 23 June 2022.

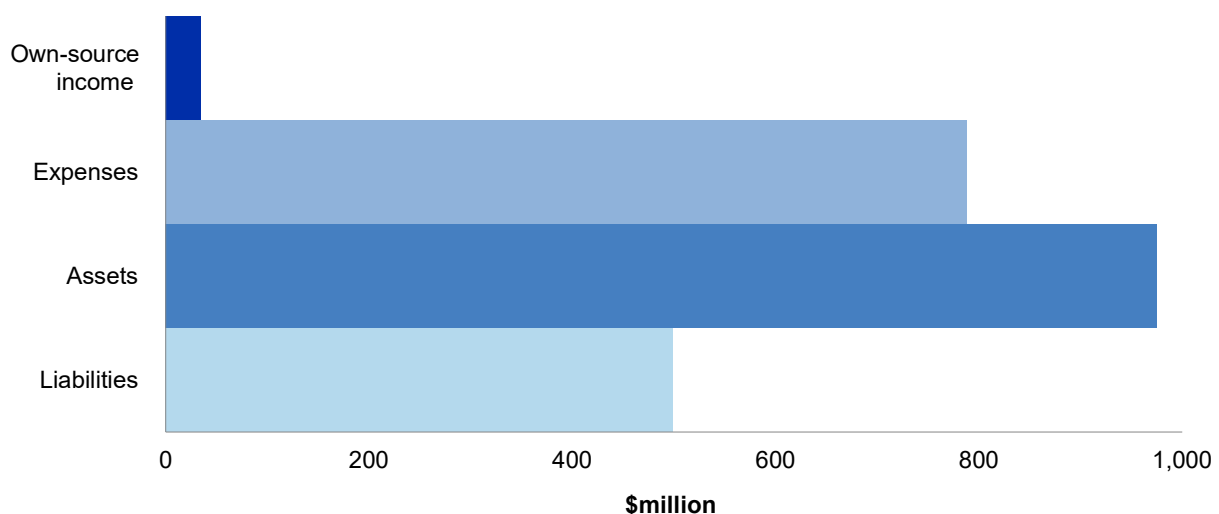
3.8.2 As a result, on 1 July 2022, a Machinery of Government (MoG) change occurred with the following impacts:

- functions related to employment, skills and vocational education transferred from the former Department of Education, Skills and Employment (now named the Department of Education (Education)) to DEWR;
- workplace relations function transferred from the Attorney-General's Department (AGD) to DEWR;
- DEWR has also assumed responsibility for the Pacific Australia Labour Mobility scheme domestic operations and policy from the Foreign Affairs and Trade portfolio which was agreed in September 2023; and
- Automatic Mutual Recognition (AMR) functions from the Department of the Prime Minister and Cabinet.

3.8.3 With effect of the above, DEWR is the lead entity in the portfolio and is responsible for enabling access to quality skills, training and employment to support Australians find secure work in fair, productive and safe workplaces.

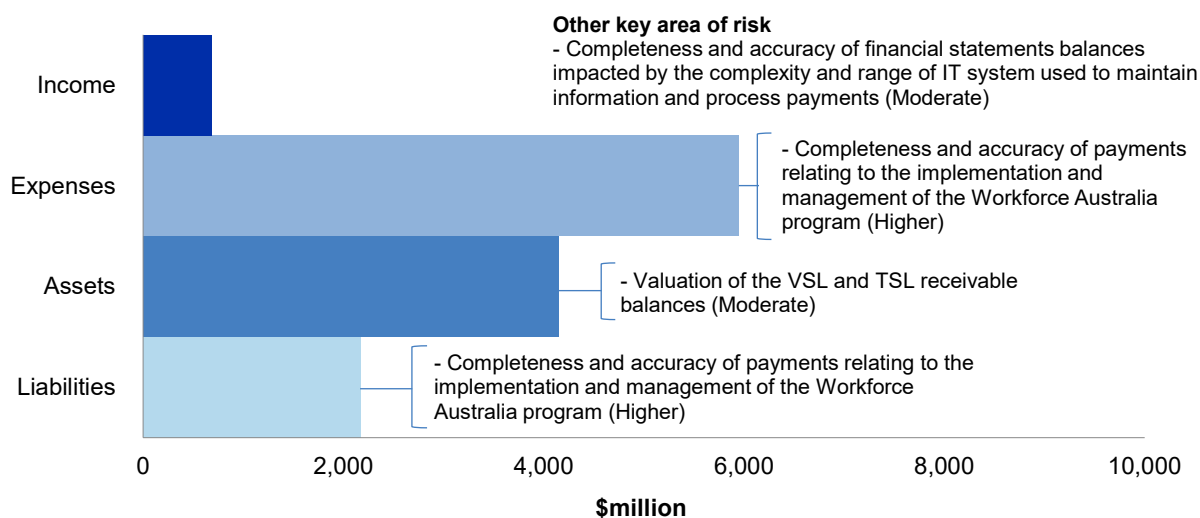
3.8.4 Figure 3.8.1 and Figure 3.8.2 below show the 2022–23 departmental and administered financial statements items reported by DEWR and the key areas of financial statements risk.

Figure 3.8.1: Key departmental financial statements items and areas of financial statements risk



Source: ANAO analysis and DEWR's budget as reported in the 2022–23 Portfolio Budget Statements.

Figure 3.8.2: Key administered financial statements items and areas of financial statements risk



Source: ANAO analysis and DEWR's budget as reported in the 2022–23 Portfolio Budget Statements.

3.8.5 The ANAO's audit approach identifies key areas of risk that have the potential to impact on DEWR's financial statements. The ANAO's risk assessment process considers the nature of the financial statements items and an understanding of DEWR's environment and governance arrangements, including its financial reporting regime and system of internal control.

3.8.6 In light of the key areas of risk and the ANAO's understanding of the operations of DEWR, the ANAO has assessed the overall risk of material misstatement in the 2022–23 financial statements audit as high.

Key financial statements items

3.8.7 Annual appropriation funding⁹⁵ of \$785.2 million (departmental) and \$5,207.1 million (administered) was provided to DEWR in 2022–23 to support the achievement of the entity's outcomes.⁹⁶ DEWR was also budgeted to receive special appropriation funding of \$1,022.3 million.⁹⁷

3.8.8 Table 3.8.1 and Table 3.8.2 below provide a summary of the key 2022–23 departmental and administered estimated financial statements items.

⁹⁵ Includes transfers of annual appropriations via determinations made under section 75 of the *Public Governance, Performance and Accountability Act 2013*.

⁹⁶ *Supply Act (No. 3) 2022–2023*; *Supply Act (No. 4) 2022–2023*; *Appropriation Act (No. 1) 2022–2023*; and *Appropriation Act (No. 2) 2022–2023*.

⁹⁷ Part 1: Budget Estimate 2022–23, Special Appropriations Table, *Agency Resourcing, Budget Paper No. 4, 2022–2023*.

Table 3.8.1: Key expenses and total own-sourced income

Expenses and own-source income	Departmental budget (\$m) 2022–23	Administered budget (\$m) 2022–23
Total expenses	788.0	5,948.8
Employee benefits	337.2	–
Suppliers	298.2	2,325.4
Subsidies	–	2,661.6
Personal benefits	–	344.9
Grants	–	259.1
Write-downs and impairments of assets	–	351.8
Depreciation and amortisation	148.0	–
Finance costs	4.4	5.9
Total own-source income	34.7	628.6
Sale of goods and rendering of services	21.7	–
Other taxes	–	140.8
Interest	–	262.3
Gains	–	57.9
Other	13.0	225.5
Net (cost of) services	(753.3)	(5,262.2)

Source: DEWR's 2022–23 budget as reported in the 2022–23 Portfolio Budget Statements.

Table 3.8.2: Key assets and liabilities

Assets and liabilities	Departmental budget (\$m) 2022–23	Administered budget (\$m) 2022–23
Total assets	974.8	4,149.0
Cash and cash equivalents	8.6	9.5
Trade and other receivables	322.7	3,797.4
Other investments	–	306.3
Other financial assets	–	28.9
Land and buildings	301.5	–
Property, plant and equipment	48.5	–
Intangibles	271.5	–
Other	22.0	7.0
Total liabilities	498.6	2,169.2
Suppliers	41.9	158.0

Assets and liabilities	Departmental budget (\$m) 2022–23	Administered budget (\$m) 2022–23
Other payables	0.3	1,951.3
Leases	319.3	–
Personal benefits	–	2.0
Grants	–	0.8
Personal benefits provision	–	–
Provision for grants	–	–
Employee provisions	137.2	–
Subsidies	–	57.1
Net assets	476.2	1,979.8

Note: DEWR's estimated average staffing level for 2022–23 is 2,915.

Source: DEWR's 2022–23 budget as reported in the 2022–23 Portfolio Budget Statements.

Key areas of financial statements risk

3.8.9 The ANAO undertakes appropriate audit procedures on all material items and focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. The ANAO also assesses the information technology (IT) general and application controls for key systems that support the preparation of DEWR's financial statements. Areas highlighted for specific audit coverage in 2022–23 are provided below in Table 3.8.3.

Table 3.8.3: Key areas of financial statements risk

Relevant financial statements line item	Key area of risk	Audit risk rating	Factors contributing to risk assessment
<i>Departmental</i> all financial statements line items	Completeness and allocation of transactions and balances resulting from MoG changes KAM	Higher	<ul style="list-style-type: none"> complexities relating to the establishment of establish governance arrangements, systems relating to risk and control, agreements with entities for functions that have been transferred, and formalising arrangements with entities for the provision and receipt of services; and configuration of a shared financial management information system between DEWR and Education increases the risk relating to accurate and complete recognition and allocation of transactions between the two entities.
<i>Departmental and administered</i> all financial statements line items	Completeness and accuracy of financial statements balances impacted by the complexity and range of IT systems used to maintain information and process payments	Moderate	<ul style="list-style-type: none"> large and complex IT environment with business applications processing a high volume of transactions; many IT systems are bespoke or heavily customised by DEWR; and reliance on customised reports to prepare financial statements balances.

Relevant financial statements line item	Key area of risk	Audit risk rating	Factors contributing to risk assessment
<i>Administered</i> Workforce Australia supplier expenses (a component of suppliers \$2,325.4 million) Workforce Australia personal benefits expenses (a component of personal benefits \$344.9 million) Workforce Australia payables (a component of suppliers \$158.0 million)	Completeness and accuracy of payments relating to the implementation and management of the Workforce Australia program KAM	Higher	<ul style="list-style-type: none"> implementation of the new Workforce Australia program, including new payment structure and compliance requirements.
<i>Administered</i> Vocational Student Loans (VSL) and Trade Support Loans (TSL) receivables (a component of trade and other receivables of \$3,797.4 million)	Valuation of the VSL and TSL receivable balances KAM	Moderate	<ul style="list-style-type: none"> the valuation of the VSL and TSL receivables is subject to an actuarial estimation process and includes a range of significant assumptions that have a high degree of uncertainty and are influenced by the wider economic environment; a new actuarial model is being applied to estimate the TSL receivable and is expected to increase the complexity from the model previously used; and the valuation is complex and dependent on the accuracy of source data.

Source: ANAO 2022–23 risk assessment, and DEWR's budgeted financial statements for the year ended 30 June 2023.

Audit results

3.8.10 The ANAO has completed its 2022–23 interim audit coverage, including an assessment of controls relating to: cash; supplier expenses; apprenticeships subsidies; Fair Entitlements Guarantee payments; aspects of Workforce Australia payments; and Vocational Student loan approvals. Audit coverage also included an assessment of the IT general controls over the financial management information system.

3.8.11 Audit procedures relating to: IT application controls on key business systems; review and assessment of the year-end loan balances⁹⁸; administered grants; administered investments and compliance programs⁹⁹; non-financial assets; and employee benefits will be performed during the final audit.

3.8.12 The assessment of IT controls over services provided to DEWR by the Department of Finance's Service Delivery Office, including monitoring controls in place at DEWR relating to these processes, is in progress.

3.8.13 The following table summarises the status of audit findings as at the end of the 2022–23 interim audit as reported by the ANAO.

Table 3.8.4: Status of audit findings raised by the ANAO

Category	Closing position (2021–22 final)	New findings (2022–23 interim)	Resolved findings (2022–23 interim)	Closing position (2022–23 interim)
B	1 ^a	1	–	2
Total	1	1	–	2

Note a: A moderate audit finding relating to timely removal of user access on termination was identified during the 2021–22 audit of the former Department of Education, Skills and Employment.

New moderate audit finding

Management of MoG changes

3.8.14 As a newly established entity, it has been necessary for DEWR to establish governance arrangements, systems relating to risk and control and agreements with entities for functions that have been transferred, in addition to formalising arrangements with entities for the provision and receipt of services.

3.8.15 While in development, at the completion of the interim audit DEWR had not finalised memoranda of understanding with the Department of Education, Services Australia and the Department of Social Services. DEWR also had not finalised a number of other governance documents, and has been relying on documents developed for the former Department of Education, Skills and Employment. Memoranda of understanding assist cross agency governance by clarifying roles and responsibilities, and organisation specific governance documents remove ambiguity of applicability.

3.8.16 An appropriate reconciliation process for appropriation transactions had not been established. In the absence of formal processes, there are risks that the amounts being reported by DEWR are not complete and accurate and/or appropriation limits are exceeded.

3.8.17 DEWR and the Department of Finance, as the service delivery organisation for human resources, had not been able to provide and validate existing employee numbers and movements during the year by way of reconciling between employee commencements and separations and the active employee listing. There is a risk regarding the completeness, accuracy and appropriateness

⁹⁸ Loan balances to be reviewed and assessed include Vocational Student and Trade Support loans.

⁹⁹ Audit procedures will be performed over the Workforce Australia and apprenticeship compliance programs.

of employee benefit payments made and reported by DEWR. Weaknesses in the management of human resources also creates risks relating to the appropriateness of physical and system access.

Unresolved moderate audit finding

Timely removal of user access on termination

3.8.18 During the 2021–22 audit of the former Department of Education, Skills and Employment, the ANAO identified instances where users had accessed systems after completion of their employment/contract. The ANAO noted that there were delays in completion of Exit Advice Notification which triggers a number of actions across the department, including the termination access to ICT networks and systems.

3.8.19 The department has implemented a standard operating procedure which reviews the separation process and sought to automate the separation process. The effectiveness of these processes is being assessed by the ANAO.

Conclusion

3.8.20 At the completion of the interim audit, and except for the findings outlined above, the ANAO identified that key elements of internal control were operating effectively to provide reasonable assurance that DEWR will be able to prepare financial statements that are free from material misstatement. The effective operation of these controls for the full financial year will be assessed in conjunction with additional audit testing during the 2022–23 final audit.

3.9 Department of Finance

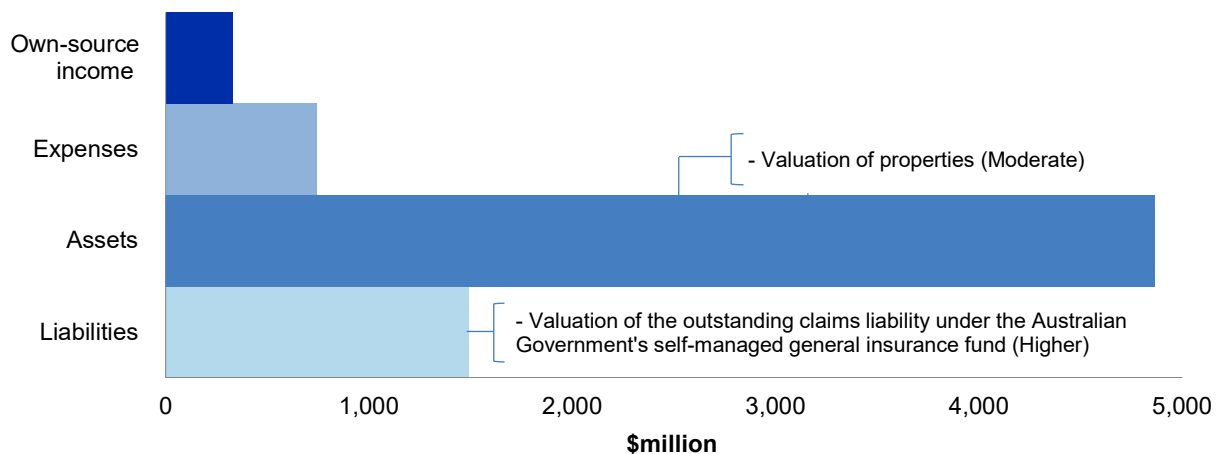
Overview

3.9.1 The Department of Finance (Finance) is responsible for supporting the government's budget process and oversight of public sector resource management, and for governance and accountability frameworks, as well as the production of the Australian Government's consolidated financial statements. Finance also provides shared services through the Service Delivery Office.

3.9.2 On 1 July 2022, an Administrative Arrangements Order (AAO) issued by the Australian Government on 1 June 2022 took effect and included a transfer of responsibility for data and digital policy from the Department of the Prime Minister and Cabinet (PM&C) to Finance.

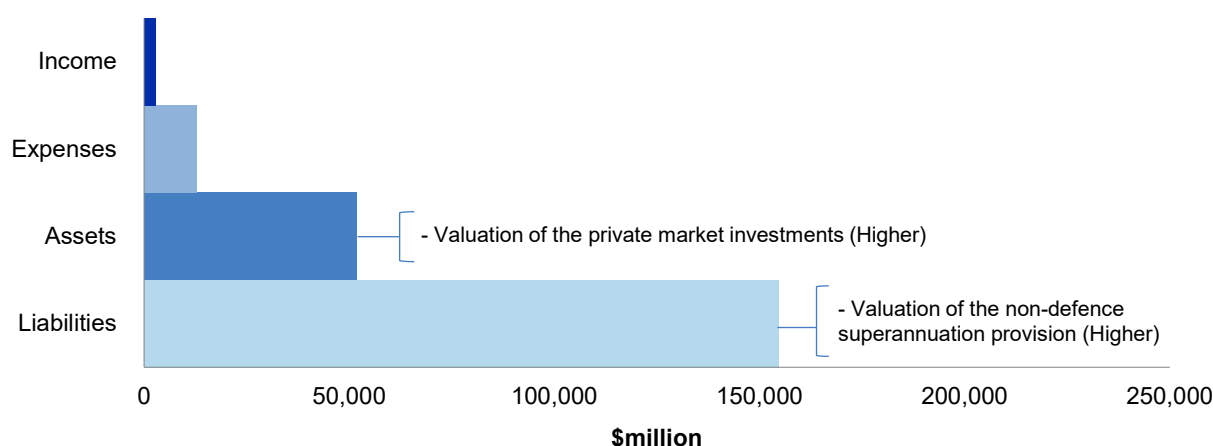
3.9.3 Figure 3.9.1 and Figure 3.9.2 below show the 2022–23 departmental and administered financial statements items reported by Finance and the key areas of financial statements risk.

Figure 3.9.1: Key departmental financial statements items and areas of financial statements risk



Source: ANAO analysis and Finance's budget as reported in the 2022–23 Portfolio Budget Statements.

Figure 3.9.2: Key administered financial statements items and areas of financial statements risk



Source: ANAO analysis and Finance's budget as reported in the 2022–23 Portfolio Budget Statements.

3.9.4 The ANAO's audit approach identifies key areas of risk that have the potential to impact on Finance's financial statements. The ANAO's risk assessment process considers the nature of the financial statements items and an understanding of Finance's environment and governance arrangements, including its financial reporting regime and system of internal control.

3.9.5 In light of the key areas of risk and the ANAO's understanding of the operations of Finance, the ANAO has assessed the overall risk of material misstatement in the 2022–23 financial statements audit as moderate.

Key financial statements items

3.9.6 Annual appropriation funding¹⁰⁰ of \$358.0 million (departmental) and \$319.9 million (administered) was provided to Finance in 2022–23 to support the achievement of the entity's outcomes.¹⁰¹ Finance was also budgeted to receive special appropriation funding of \$8,676.1 million.¹⁰²

3.9.7 Table 3.9.1 and Table 3.9.2 below provide a summary of the key 2022–23 departmental and administered estimated financial statements items.

¹⁰⁰ Includes transfers of annual appropriations via determinations made under section 75 of the *Public Governance, Performance and Accountability Act 2013*.

¹⁰¹ *Supply Act (No. 1) 2022–2023; Supply Act (No. 2) 2022–2023; Supply Act (No. 3) 2022–2023; Supply Act (No. 4) 2022–2023; Appropriation Act (No. 1) 2022–2023; and Appropriation Act (No. 2) 2022–2023*.

¹⁰² Part 1: Budget Estimate 2022–23, Special Appropriations Table, *Agency Resourcing, Budget Paper No. 4, 2022–2023*.

Table 3.9.1: Key expenses and total own-sourced income

Expenses and own-source income	Departmental budget (\$m) 2022–23	Administered budget (\$m) 2022–23
Total expenses	742.0	12,802.0
Employee benefits	193.7	394.7
Suppliers	223.3	128.8
Depreciation and amortisation	123.4	57.0
Insurance claims	179.1	–
Superannuation	–	9,199.1
Distributions from investment funds	–	2,854.7
Other	22.5	167.7
Total own-source income	328.7	2,911.1
Contracts with customers	73.6	3.0
Insurance premiums	174.5	–
Superannuation contributions	–	1,027.8
Interest and dividends	–	1,315.9
Gains on sale of investments	–	549.5
Rental Income	78.6	–
Other	2.0	14.9
Net (cost of) services	(413.3)	(9,890.9)

Source: Finance's 2022–23 budget as reported in the 2022–23 Portfolio Budget Statements.

Table 3.9.2: Key assets and liabilities

Assets and liabilities	Departmental budget (\$m) 2022–23	Administered budget (\$m) 2022–23
Total assets	4,865.6	51,897.2
Cash and cash equivalents	858.5	336.0
Trade and other receivables	62.3	305.3
Land and buildings (including investment property)	3,809.8	229.4
Property, plant and equipment	16.2	111.2
Intangibles	96.3	1.0
Other	22.5	40.4

Assets and liabilities	Departmental budget (\$m) 2022–23	Administered budget (\$m) 2022–23
Investments	–	50,873.9
Total liabilities	1,491.4	154,572.6
Suppliers	37.9	12.1
Outstanding insurance claims	858.8	–
Employee provisions	70.4	270.3
Return of equity	53.5	–
Superannuation	–	153,098.9
Leases	441.5	215.1
Other	29.3	976.2
Net assets/(liabilities)	3,374.2	(102,675.4)

Note: Finance's estimated average staffing level for 2022–23 is 1,396.

Source: Finance's 2022–23 budget as reported in the 2022–23 Portfolio Budget Statements.

Key areas of financial statements risk

3.9.8 The ANAO undertakes appropriate audit procedures on all material items and focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. The ANAO also assesses the information technology (IT) general and application controls for key systems that support the preparation of Finance's financial statements. Areas highlighted for specific audit coverage in 2022–23 are provided below in Table 3.9.3.

Table 3.9.3: Key areas of financial statements risk

Relevant financial statements line item	Key area of risk	Audit risk rating	Factors contributing to risk assessment
<i>Departmental</i> insurance provision \$858.8 million	Valuation of the outstanding claims liability under the Australian Government's self-managed general insurance fund KAM	Higher	<ul style="list-style-type: none"> complex calculation of the liability that involves significant judgement over key assumptions including claim ratios, expected frequency of claims, severity of claims and discount rates.
<i>Departmental</i> land and buildings (including investment property) \$3,809.8 million	Valuation of properties KAM	Moderate	<ul style="list-style-type: none"> the valuations being dependent on assumptions that require judgement relating to fair market rents, discount rates, condition and use of the properties.

Relevant financial statements line item	Key area of risk	Audit risk rating	Factors contributing to risk assessment
<i>Administered</i> superannuation \$153,098.9 million	Valuation of the non-defence superannuation provision KAM	Higher	<ul style="list-style-type: none"> complex calculation requiring significant judgement in the selection of long-term assumptions, including economic assumptions and demographics of the schemes' members.
<i>Administered</i> collective investment vehicles (a component of investments \$50,873.9 million)	Valuation of private market investments KAM	Higher	<ul style="list-style-type: none"> the size of the investments and the inherent subjectivity and significant judgements and estimates required where market data is not available to determine the fair value of these investments.

Source: ANAO 2022–23 risk assessment, and Finance's budgeted financial statements for the year ended 30 June 2023.

Audit results

3.9.9 The ANAO has completed its 2022–23 interim audit coverage, including an assessment of the controls relating to: employee and supplier expenditure; appropriations and special accounts; and asset and cash management. The interim audit coverage also included an assessment of IT general and application controls relating to the Service Delivery Office.

3.9.10 Audit procedures relating to valuation of the insurance provision, superannuation provision, collective investment vehicles and properties will be undertaken as part of the planned 2022–23 final audit.

3.9.11 The following table summarises the status of audit findings as at the end of the 2022–23 interim audit as reported by the ANAO.

Table 3.9.4: Status of audit findings raised by the ANAO

Category	Closing position (2021–22 final)	New findings (2022–23 interim)	Resolved findings (2022–23 interim)	Closing position (2022–23 interim)
B	–	1	–	1
Total	–	1	–	1

New moderate audit finding

User terminations

3.9.12 The ANAO identified a number of user accounts that retained access after the user's termination date, including users that are *Members of Parliament (Staff) Act 1984* (MoP(S) Act) employees. Finance advised this was due to late notification from business areas. The ANAO found instances where users accessed the system after the termination date that were undetected by Finance. Finance performs monthly checks to detect, and investigate, if users have accessed the system after their employment cessation. However, this procedure does not include all user groups.

3.9.13 The ANAO recommended that Finance implement controls to improve the timeliness of the notification from business areas and extend existing controls to detect and investigate any post termination access for all user groups. The ANAO will monitor the progress of this issue during the 2022–23 final audit.

Conclusion

3.9.14 At the completion of the interim audit, and except for the finding outlined above, the ANAO identified that key elements of internal control were operating effectively to provide reasonable assurance that Finance will be able to prepare financial statements that are free from material misstatement. The effective operation of these controls for the full financial year will be assessed in conjunction with additional audit testing during the 2022–23 final audit.

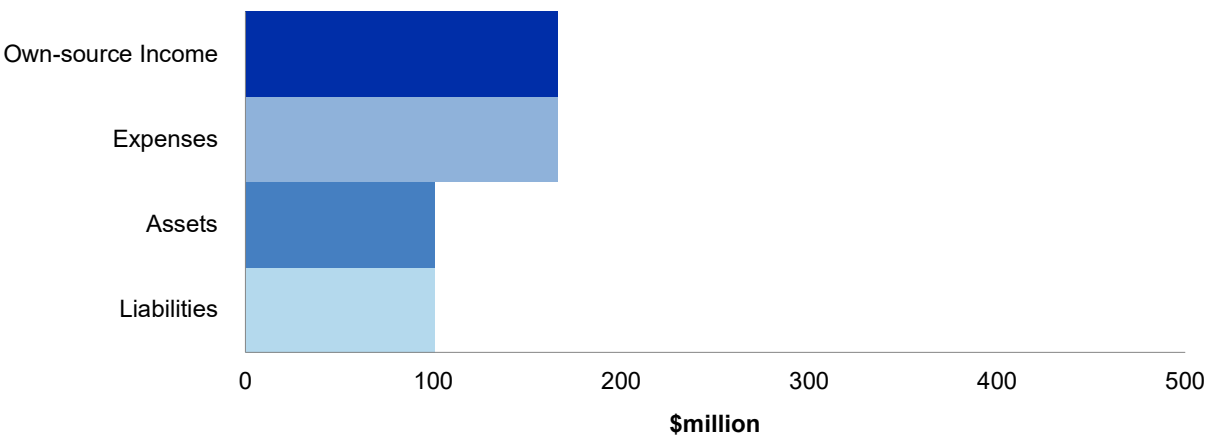
3.10 Future Fund Management Agency

Overview

3.10.1 The Future Fund Board of Guardians, supported by the Future Fund Management Agency (together the Future Fund), is responsible for investing the assets of the Future Fund under the *Future Fund Act 2006*, and other investment funds, managed on behalf of the Department of Finance. The investment of the funds is managed under the *Disability Care Australia Fund Act 2013*, the *Medical Research Future Fund Act 2015*, the *Aboriginal and Torres Strait Islander Land and Sea Future Fund Act 2018*, the *Future Drought Fund Act 2019* and the *Emergency Response Fund Amendment (Disaster Ready Fund) Act 2022* as a means to provide financing sources for substantial future investments in the Australian economy.

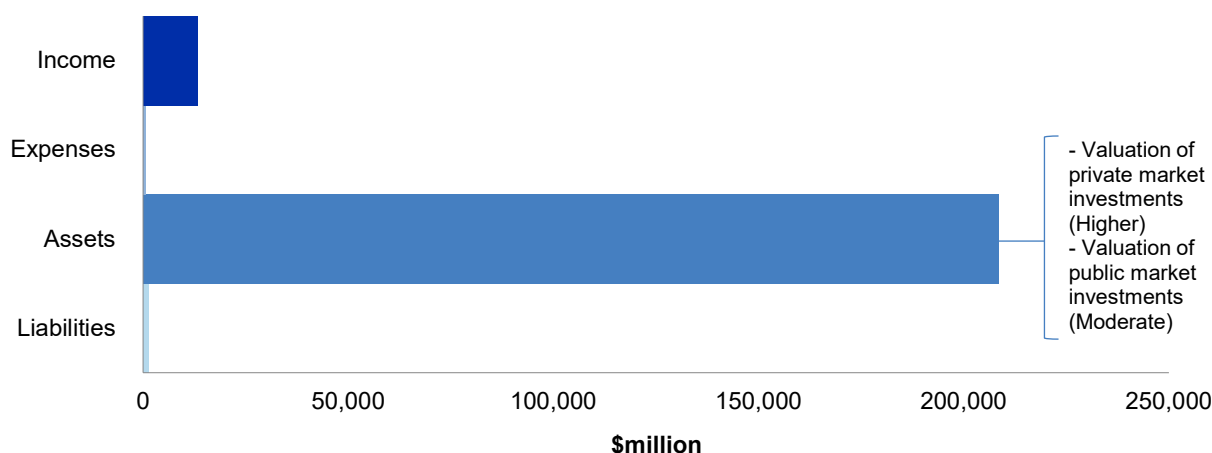
3.10.2 Figure 3.10.1 and Figure 3.10.2 below show the 2022–23 departmental and administered financial statements items reported by the Future Fund and the key areas of financial statements risk.

Figure 3.10.1: Key departmental financial statements items and areas of financial statements risk



Source: ANAO analysis and the Future Fund's budget as reported in the 2022–23 Portfolio Budget Statements.

Figure 3.10.2: Key administered financial statements items and areas of financial statements risk



Source: ANAO analysis and the Future Fund's budget as reported in the 2022–23 Portfolio Budget Statements.

3.10.3 The ANAO's audit approach identifies key areas of risk that have the potential to impact on the Future Fund's financial statements. The ANAO's risk assessment process considers the nature of the financial statements items and an understanding of the Future Fund's environment and governance arrangements, including its financial reporting regime and system of internal control.

3.10.4 In light of the key areas of risk and the ANAO's understanding of the operations of the Future Fund, the ANAO has assessed the overall risk of material misstatement in the 2022–23 financial statements audit as moderate.

Key financial statements items

3.10.5 The Future Fund does not receive any annual appropriation funding. The Future Fund is self-funded and does not rely on appropriations for the continuance of its operations.

3.10.6 Table 3.10.1 and Table 3.10.2 below provide a summary of the key 2022–23 departmental and administered estimated financial statements items.

Table 3.10.1: Key expenses and total own-sourced income

Expenses and own-source income	Departmental budget (\$m) 2022–23	Administered budget (\$m) 2022–23
Total expenses	165.7	613.3
Employee benefits	78.7	1.0
Suppliers	78.0	612.3
Depreciation and amortisation	8.8	–
Other expenses	0.2	–
Total own-source income	165.7	13,287.3
Interest and dividends	–	6,332.3

Expenses and own-source income	Departmental budget (\$m) 2022–23	Administered budget (\$m) 2022–23
Other gains	0.2	6,955.0
Other revenue	165.5	–
Net contribution to services	–	12,674.0

Source: The Future Fund's 2022–23 budget as reported in the 2022–23 Portfolio Budget Statements.

Table 3.10.2: Key assets and liabilities

Assets and liabilities	Departmental budget (\$m) 2022–23	Administered budget (\$m) 2022–23
Total assets	101.4	208,422.1
Cash and cash equivalents	0.4	0.5
Trade and other receivables	46.8	3,599.4
Other financial assets	4.7	–
Land and buildings (including investment properties)	30.8	–
Property, plant and equipment	17.9	–
Other non-financial assets	0.8	–
Other investments	–	204,822.2
Total liabilities	101.4	1,435.4
Suppliers	8.0	308.4
Other payables	33.6	1,099.5
Leases	46.3	–
Employee provisions	13.5	–
Other provisions	–	27.5
Net assets	–	206,986.7

Note: The Future Fund's estimated average staffing level for 2022–23 is 233.

Source: The Future Fund's 2022–23 budget as reported in the 2022–23 Portfolio Budget Statements.

Key areas of financial statements risk

3.10.7 The ANAO undertakes appropriate audit procedures on all material items and focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. The ANAO also assesses the information technology (IT) general and application controls for key systems that support the preparation of the Future Fund's financial statements. Areas highlighted for specific audit coverage in 2022–23 are provided below in Table 3.10.3.

Table 3.10.3: Key areas of financial statements risk

Relevant financial statements line item	Key area of risk	Audit risk rating	Factors contributing to risk assessment
<i>Administered</i> investments — collective investments (a component of other investments \$204,822.2 million)	Valuation of private market investments KAM	Higher	<ul style="list-style-type: none"> the size of the investments and the inherent subjectivity and significant judgements and estimates required where market data is not available to determine the fair value of these investments.
<i>Administered</i> investments (a component of other investments \$204,822.2 million)	Valuation of public market investments	Moderate	<ul style="list-style-type: none"> the size of the investments and the reliance on the valuation undertaken by the custodian.

Source: ANAO 2022–23 risk assessment, and the Future Fund's budgeted financial statements for the year ended 30 June 2023.

Audit results

3.10.8 The ANAO has completed its 2022–23 interim audit coverage, including an assessment of the controls relating to the management of investments; monitoring of service providers; and operational expenses incurred by the Future Fund.

3.10.9 The valuation of investments, including the assessment of controls that reside within the outsourced custodian, will be completed as part of the planned 2022–23 final audit.

3.10.10 To date, our audit coverage of the above areas has not identified any new significant or moderate audit findings.¹⁰³

Conclusion

3.10.11 Based on our audit coverage to date, key elements of internal control were operating effectively to provide reasonable assurance that the Future Fund will be able to prepare financial statements that are free from material misstatement. The effective operation of these internal controls for the full financial year will be assessed during the 2022–23 final audit.

¹⁰³ The 2021–22 audit also did not identify any significant or moderate audit findings.

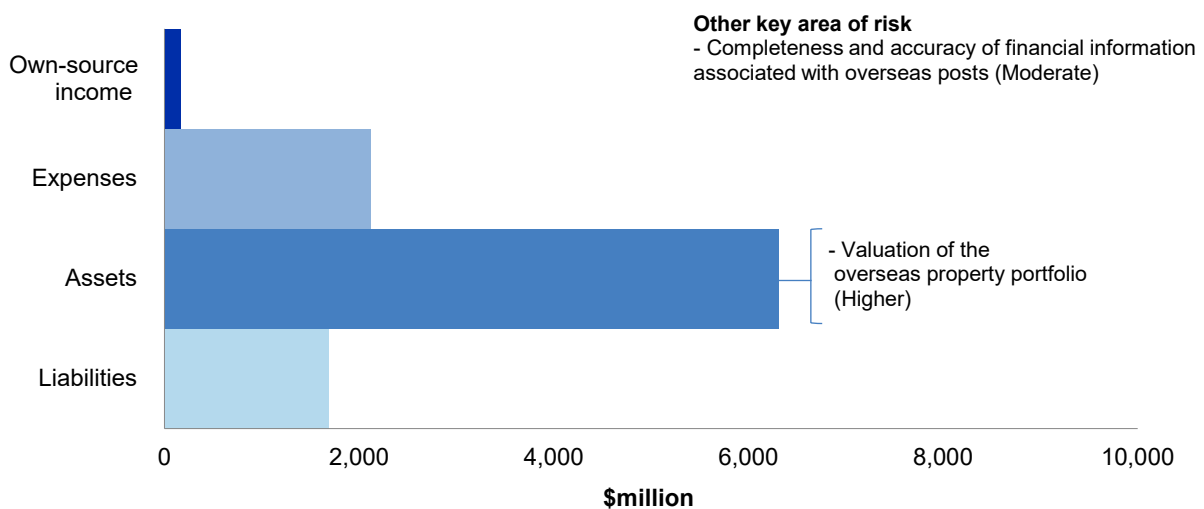
3.11 Department of Foreign Affairs and Trade

Overview

3.11.1 The Department of Foreign Affairs and Trade (DFAT) supports Australia's foreign, trade and investment, development and international security policy priorities. DFAT is the lead agency managing Australia's international presence and will lead efforts to maximise Australia's security and prosperity through implementation of the 2017 Foreign Policy White Paper.

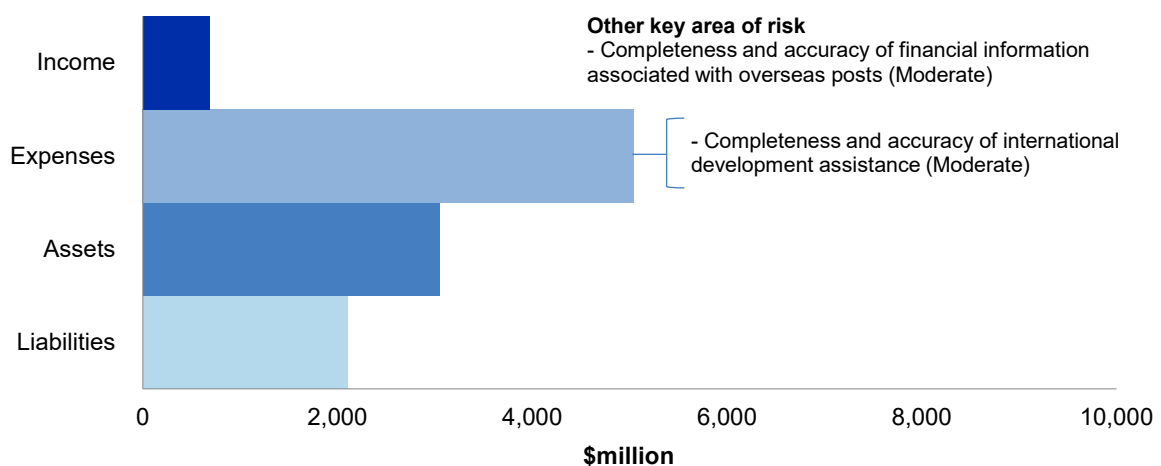
3.11.2 Figure 3.11.1 and Figure 3.11.2 below show the 2022–23 departmental and administered financial statements items reported by DFAT and the key areas of financial statements risk.

Figure 3.11.1: Key departmental financial statements items and areas of financial statements risk



Source: ANAO analysis and DFAT's budget as reported in the 2022–23 Portfolio Budget Statements.

Figure 3.11.2: Key administered financial statements items and areas of financial statements risk



Source: ANAO analysis and DFAT's budget as reported in the 2022–23 Portfolio Budget Statements.

3.11.3 The ANAO's audit approach identifies key areas of risk that have the potential to impact on DFAT's financial statements. The ANAO's risk assessment process considers the nature of the financial statements items and an understanding of DFAT's environment and governance arrangements, including its financial reporting regime and system of internal control.

3.11.4 In light of the key areas of risk and the ANAO's understanding of the operations of DFAT, the ANAO has assessed the overall risk of material misstatement in the 2022–23 financial statements audit as moderate.

Key financial statements items

3.11.5 Annual appropriation funding¹⁰⁴ of \$1,953.7 million (departmental) and \$4,343.4 million (administered) was provided to DFAT in 2022–23 to support the achievement of the entity's outcomes.¹⁰⁵ DFAT was also budgeted to receive special appropriation funding of \$343.5 million.¹⁰⁶

3.11.6 Table 3.11.1 and Table 3.11.2 below provide a summary of the key 2022–23 departmental and administered estimated financial statements items.

Table 3.11.1: Key expenses and total own-sourced income

Expenses and own-source income	Departmental budget (\$m) 2022–23	Administered budget (\$m) 2022–23
Total expenses	2,118.5	5,046.2
Employee benefits	1,055.5	–
Suppliers	710.6	–
Depreciation and amortisation	336.2	–
Official Development Assistance	–	3,759.5
Multilateral replenishments	–	565.4
Other Contributions	–	567.7
Other	16.2	153.6
Total own-source income	172.1	687.4
Revenue from contracts with customers	121.3	–
Fees and charges	–	568.1
Other	50.8	119.3
Net (cost of) services	(1,946.4)	(4,358.8)

Source: DFAT's 2022–23 budget as reported in the 2022–23 Portfolio Budget Statements.

¹⁰⁴ Includes transfers of annual appropriations via determinations made under section 75 of the *Public Governance, Performance and Accountability Act 2013*.

¹⁰⁵ *Supply Act (No. 1) 2022–2023; Supply Act (No. 2) 2022–2023; Supply Act (No. 3) 2022–2023; Supply Act (No. 4) 2022–2023; Appropriation Act (No. 1) 2022–2023; and Appropriation Act (No. 2) 2022–2023.*

¹⁰⁶ Part 1: Budget Estimate 2022–23, Special Appropriations Table, *Agency Resourcing, Budget Paper No. 4, 2022–2023*.

Table 3.11.2: Key assets and liabilities

Assets and liabilities	Departmental budget (\$m) 2022–23	Administered budget (\$m) 2022–23
Total assets	6,319.5	3,045.7
Cash and cash equivalents	421.7	8.8
Trade and other receivables	641.4	50.9
Multilateral Investments	–	2,173.7
Land and buildings	4,684.1	–
Property, plant and equipment	373.3	–
Other	199.0	812.3
Total liabilities	1,695.0	2,102.9
Suppliers payable	146.0	–
Multilateral replenishments payable	–	1,760.3
Other payables	115.8	258.4
Leases	1,103.0	–
Employee provisions	287.5	54.8
Other provisions	42.7	29.4
Net assets	4,624.5	942.8

Note: DFAT's estimated average staffing level for 2022–23 is 6,090.

Source: DFAT's 2022–23 budget as reported in the 2022–23 Portfolio Budget Statements.

Key areas of financial statements risk

3.11.7 The ANAO undertakes appropriate audit procedures on all material items and focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. The ANAO also assesses the information technology (IT) general and application controls for key systems that support the preparation of DFAT's financial statements. Areas highlighted for specific audit coverage in 2022–23 are provided below in Table 3.11.3.

Table 3.11.3: Key areas of financial statements risk

Relevant financial statements line item	Key area of risk	Audit risk rating	Factors contributing to risk assessment
<i>Departmental</i> land and buildings \$4,684.1 million	Valuation of the overseas property portfolio KAM	Higher	<ul style="list-style-type: none"> • subject to complex estimation and judgements affected by market conditions at overseas locations and foreign exchange movements; • range of valuation methodologies applied; and • reliance on third-party contractual arrangements for the management of overseas property.
<i>Departmental and administered</i> various financial statements line items	Completeness and accuracy of financial information associated with overseas posts	Moderate	<ul style="list-style-type: none"> • decentralised operations across DFAT's international post network; and • differing governance arrangements and financial processes across DFAT's international post network.
<i>Administered</i> international development assistance (a component of Official Development Assistance \$3,759.5 million)	Completeness and accuracy of international development assistance KAM	Moderate	<ul style="list-style-type: none"> • a broad range of agreements that cover a range of geographical areas; and • agreements with many third parties, including international organisations, emergency and humanitarian programs, contributions to non-government organisations and volunteer programs.

Source: ANAO 2022–23 risk assessment, and DFAT's budgeted financial statements for the year ended 30 June 2023.

Audit results

3.11.8 The ANAO has completed its 2022–23 interim audit coverage, including an assessment of the controls relating to: quality assurance processes over lease management; payroll processing for Australian Public Service (APS) employees; cash management; and supplier expenses.

3.11.9 Interim audit procedures have also been completed over DFAT's IT general controls in the financial management information system, the human resource management information system, and the two Official Development Assistance information systems.

3.11.10 Audit procedures relating to: assets, appropriations, overseas-based (excluding APS) employees, administered passport revenue, and Official Development Assistance will be undertaken as part of the planned 2022–23 final audit. To date, our audit coverage of the above areas has not identified any new significant or moderate audit findings.¹⁰⁷

¹⁰⁷ The 2021–22 audit also did not identify any significant or moderate audit findings.

Conclusion

3.11.11 Based on our audit coverage to date, key elements of internal control were operating effectively to provide reasonable assurance that DFAT will be able to prepare financial statements that are free from material misstatement. The effective operation of these internal controls for the full financial year will be assessed during the 2022–23 final audit.

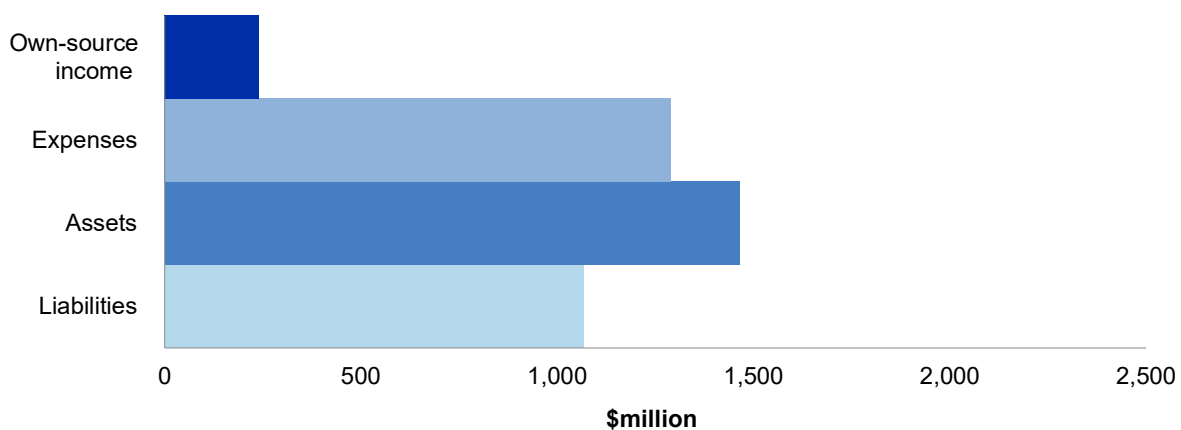
3.12 Department of Health and Aged Care

Overview

3.12.1 The Department of Health and Aged Care (DoHAC) is responsible for achieving the Australian Government's health outcomes in the areas of health system policy, design and innovation; health access and support services; sport and recreation; individual health benefits; regulation, safety and protection; and ageing and aged care. This includes administering programs and services, such as Medicare and the Pharmaceutical Benefits Scheme, and forming partnerships with the states and territories, as well as other stakeholders.

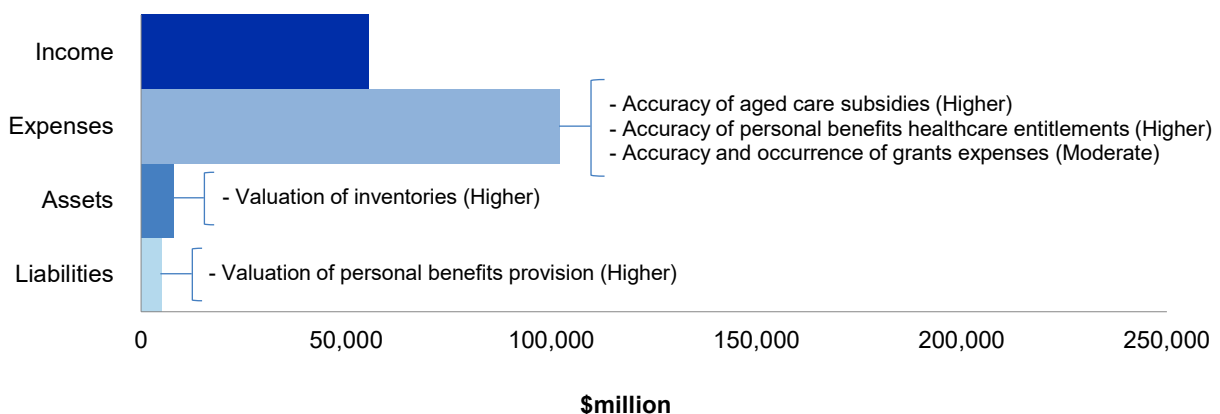
3.12.2 Figure 3.12.1 and Figure 3.12.2 below show the 2022–23 departmental and administered financial statements items reported by DoHAC and the key areas of financial statements risk.

Figure 3.12.1: Key departmental financial statements items and areas of financial statements risk



Source: ANAO analysis and DoHAC's budget as reported in the 2022–23 Portfolio Budget Statements.

Figure 3.12.2: Key administered financial statements items and areas of financial statements risk



Source: ANAO analysis and DoHAC's budget as reported in the 2022–23 Portfolio Budget Statements.

3.12.3 The ANAO's audit approach identifies key areas of risk that have the potential to impact on DoHAC's financial statements. The ANAO's risk assessment process considers the nature of the

financial statements items and an understanding of DoHAC's environment and governance arrangements, including its financial reporting regime and system of internal control.

3.12.4 In light of the key areas of risk and the ANAO's understanding of the operations of DoHAC, the ANAO has assessed the overall risk of material misstatement in the 2022–23 financial statements audit as high.

Key financial statements items

3.12.5 Annual appropriation funding of \$1,167.1 million (departmental) and \$19,661.8 million (administered) was provided to DoHAC in 2022–23 to support the achievement of the entity's outcomes.¹⁰⁸ DoHAC was also budgeted to receive special appropriation funding of \$32,011.3 million.¹⁰⁹

3.12.6 Table 3.12.1 and Table 3.12.2 below provide a summary of the key 2022–23 departmental and administered estimated financial statements items.

Table 3.12.1: Key expenses and total own-sourced income

Expenses and own-source income	Departmental budget (\$m) 2022–23	Administered budget (\$m) 2022–23
Total expenses	1,289.9	101,931.1
Employee benefits	614.7	–
Suppliers	532.6	2,663.2
Subsidies	–	16,663.3
Depreciation and amortisation	132.1	1.7
Personal benefits	–	67,185.3
Grants	–	14,078.8
Payments to corporate Commonwealth entities	–	598.0
Interest on right of use assets	5.5	–
Other	5.1	740.7
Total own-source income	240.2	55,472.3
Sale of goods and rendering of services	229.6	–
Other revenue & gains	9.7	480.8
Recoveries	–	6,006.8
Interest	–	22.9
Other taxes	–	–
Special account transfers	–	48,934.2

108 *Supply Act (No. 1) 2022–2023; Supply Act (No. 2) 2022–2023; Appropriation Act (No. 1) 2022–2023; and Appropriation Act (No. 2) 2022–2023.*

109 Part 1: Budget Estimate 2022–23, Special Appropriations Table, *Agency Resourcing, Budget Paper No. 4, 2022–2023.*

Expenses and own-source income	Departmental budget (\$m) 2022–23	Administered budget (\$m) 2022–23
Other	0.9	27.7
Net (cost of)/contribution to services	(1,049.7)	46,458.8

Source: DoHAC's 2022–23 budget as reported in the 2022–23 Portfolio Budget Statements.

Table 3.12.2: Key assets and liabilities

Assets and liabilities	Departmental budget (\$m) 2022–23	Administered budget (\$m) 2022–23
Total assets	1,463.9	7,896.8
Receivables	202.4	1,078.1
Cash and cash equivalents	120.1	3,404.8
Investments	–	748.4
Inventories	–	2,662.4
Land and buildings	694.9	–
Property, plant and equipment	6.6	3.2
Intangibles	406.5	–
Other	33.5	–
Total liabilities	1,067.1	4,898.4
Personal benefits payable	–	1,964.3
Subsidies payable	–	128.3
Suppliers payable	82.0	657.0
Grants payable	–	211.2
Other payables	34.1	–
Personal benefits provision	–	1,362.3
Subsidies provision	–	575.2
Leases	709.5	–
Employee payable	19.2	–
Employee provisions	205.0	–
Other provisions	17.3	–
Net assets	396.8	2,998.4

Note: DoHAC's estimated average staffing level for 2022–23 is 4,889.

Source: DoHAC's 2022–23 budget as reported in the 2022–23 Portfolio Budget Statements.

Key areas of financial statements risk

3.12.7 The ANAO undertakes appropriate audit procedures on all material items and focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. The ANAO also assesses the information technology (IT) general and application controls for key systems that support the preparation of DoHAC's financial statements. Areas highlighted for specific audit coverage in 2022–23 are provided below in Table 3.12.3.

Table 3.12.3: Key areas of financial statements risk

Relevant financial statements line item	Key area of risk	Audit risk rating	Factors contributing to risk assessment
<i>Administered</i> subsidies \$16,663.3 million	Accuracy of aged care subsidies KAM	Higher	<ul style="list-style-type: none"> subsidy paid is based on an assessment of residents' ongoing care needs performed by a third party provider; and payments are calculated by multiple, complex IT systems and are underpinned by complex regulatory requirements.
<i>Administered</i> personal benefits expense \$67,185.3 million	Accuracy of personal benefits health care entitlements KAM	Higher	<ul style="list-style-type: none"> payments are based on information provided by the benefit recipients and may be significantly impacted by delays in recipients providing correct or updated information and/or provision of incorrect information resulting in invalid payments.
<i>Administered</i> inventories \$2,662.4 million	Valuation of inventories KAM	Higher	<ul style="list-style-type: none"> complexities associated with the determination of current replacement cost and loss of service potential.
<i>Administered</i> personal benefits provision \$1,362.3 million	Valuation of personal benefits liabilities KAM	Higher	<ul style="list-style-type: none"> significant actuarial assumptions and judgements are involved in estimating the personal benefits liabilities; the significant judgements relate to the amount and timing of future claims, estimating the period over which these liabilities are expected to be settled; and the judgements rely on the completeness and accuracy of the underlying historical data used in the estimation process.
<i>Administered</i> grants expense \$14,078.8 million	Accuracy and occurrence of grants expenses	Moderate	<ul style="list-style-type: none"> diversity of the grant programs administered by DoHAC with differing eligibility and reporting requirements.

Source: ANAO 2022–23 risk assessment, and DoHAC's budgeted financial statements for the year ended 30 June 2023.

3.12.8 The ANAO also considers the results of recent performance audits in identifying risks and designing an approach for the financial statements audit. The following performance audit reports were tabled during 2022–23 relevant to the financial management or administration of DoHAC:

- Auditor-General Report No.3 2022–23 *Australia's COVID-19 Vaccine Rollout*; and
- Auditor-General Report No.10 2022–23 *Expansion of Telehealth Services*.

3.12.9 The observations of these reports were considered in designing audit procedures to address areas considered to pose a lower risk of material misstatement.

Audit results

3.12.10 The ANAO has completed its 2022–23 interim audit coverage, including an assessment of the controls relating to: IT security, change management and application controls in the financial management and human resource information systems; and the accuracy of personal benefits health care entitlements. Detailed testing has also been performed in relation to grants expenses.

3.12.11 Audit procedures relating to other key areas of financial statements risk, including: the accuracy of aged care subsidies; the valuation of inventories; and the valuation of the personal benefits provision will be undertaken as part of the planned 2022–23 final audit.

3.12.12 The following table summarises the status of audit findings as at the end of the 2022–23 interim audit as reported by the ANAO.

Table 3.12.4: Status of audit findings raised by the ANAO

Category	Closing position (2021–22 final)	New findings (2022–23 interim)	Resolved findings (2022–23 interim)	Closing position (2022–23 interim)
B	1	–	–	1
Total	1	–	–	1

Unresolved moderate audit finding

Impairment of administered inventory

3.12.13 Individual inventory items held in the National Medical Stockpile are written off when the item passes its expiration date or when the item has been assessed as damaged. Similarly, vaccines inventory is written-off when there is observed damage, the item passes its expiration date and/or is exposed to temperatures outside its acceptable range (cold chain breaches).

3.12.14 During the stocktaking conducted for the NMS items during 2021–22, DoHAC identified errors associated with the expiry date of NMS items. Due to the errors identified, management completed additional assurance activities to confirm the appropriateness of the carrying value of inventory as at 30 June 2022.

3.12.15 The ANAO recommended DoHAC implement an activity to provide assurance that the impairment status of inventory is accurate and to incorporate expiry date adjustments as part of the cycle count process. The ANAO also recommended that DoHAC consider developing an allowance for impairment focusing on inventory categories that are likely to expire before they are consumed.

3.12.16 As part of the 2022–23 interim audit, the ANAO has assessed DoHAC’s progress in addressing the weaknesses identified. DoHAC is currently in the process of developing the annual stocktake procedures and has advised that procedures will be incorporated to confirm the accuracy of expiry dates recorded. DoHAC is also considering the development of a consumption forecast model for the purposes of estimating impairment. The ANAO will continue to monitor DoHAC’s progress in addressing the finding as part of the final audit.

Conclusion

3.12.17 At the completion of the interim audit, and except for the finding outlined above, the ANAO identified that key elements of internal control were operating effectively to provide reasonable assurance that DoHAC will be able to prepare financial statements that are free from material misstatement. The effective operation of these controls for the full financial year will be assessed in conjunction with additional audit testing during the 2022–23 final audit.

3.13 Department of Home Affairs

Overview

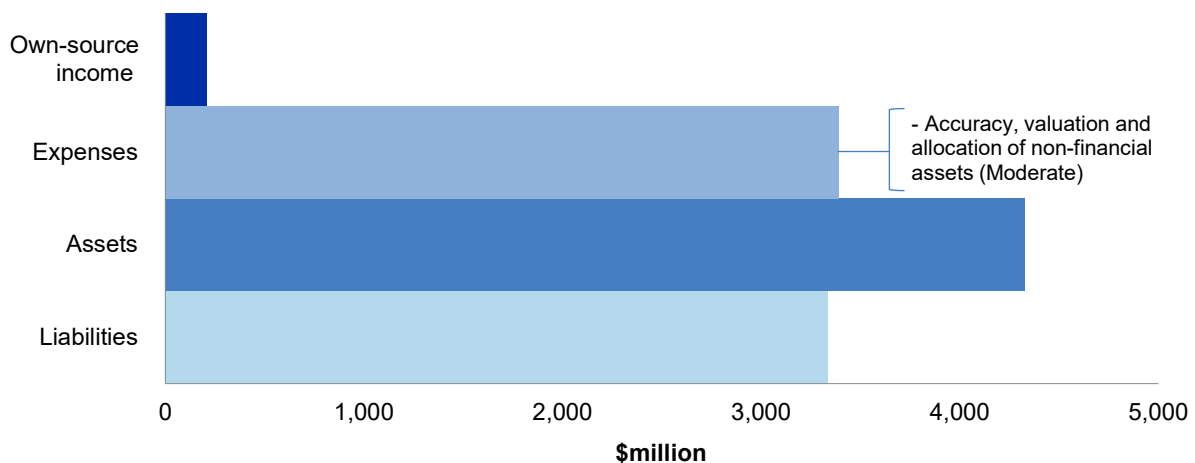
3.13.1 The Department of Home Affairs (Home Affairs) is responsible for central coordination, strategy and policy in relation to: cyber and critical infrastructure resilience and security; immigration, border security and management; and counter-terrorism. It also deals with the management and delivery of the migration, humanitarian and refugee programs, along with multicultural programs, citizenship and settlement services. Home Affairs includes the Australian Border Force, which is responsible for border, investigatory, compliance, detention (facilities and centres) and enforcement functions, as well as Australia's customs functions.

3.13.2 On 1 June 2022, an Administrative Arrangements Order was issued by the Australian Government. As a result, a Machinery of Government (MoG) change occurred for Home Affairs, resulting in responsibility for law enforcement policy and cybercrime functions being transferred to the Attorney-General's Department effective from 1 July 2022.¹¹⁰

3.13.3 Following a letter from the Prime Minister on 30 June 2022, emergency management functions were transferred to the National Emergency Management Agency (NEMA). This was completed on 1 September 2022 following the order by the Governor-General to establish NEMA on 18 August 2022.

3.13.4 Figure 3.13.1 and Figure 3.13.2 below show the 2022–23 departmental and administered financial statements items reported by Home Affairs and the key areas of financial statements risk.

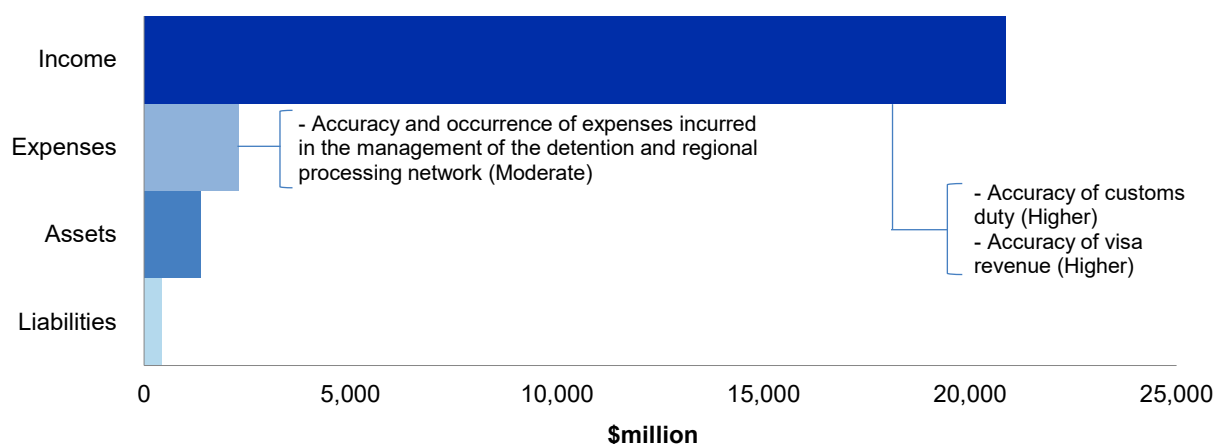
Figure 3.13.1: Key departmental financial statements items and areas of financial statements risk



Source: ANAO analysis and Home Affairs' budget as reported in the 2022–23 Portfolio Budget Statements.

¹¹⁰ Changes were made to the Administrative Arrangements Orders on 13 October 2022 to clarify the Attorney-General's Department has responsibility for cybercrime functions.

Figure 3.13.2: Key administered financial statements items and areas of financial statements risk



Source: ANAO analysis and Home Affairs' budget as reported in the 2022–23 Portfolio Budget Statements.

3.13.5 The ANAO's audit approach identifies key areas of risk that have the potential to impact on Home Affairs' financial statements. The ANAO's risk assessment process considers the nature of the financial statements items and an understanding of Home Affairs' environment and governance arrangements, including its financial reporting regime and system of internal control.

3.13.6 In light of the key areas of risk and the ANAO's understanding of the operations of Home Affairs, the ANAO has assessed the overall risk of material misstatement in the 2022–23 financial statements audit as high.

Key financial statements items

3.13.7 Annual appropriation funding¹¹¹ of \$2,996.0 million (departmental) and \$2,016.1 million (administered) was provided to Home Affairs in 2022–23 to support the achievement of the entity's outcomes.¹¹² Home Affairs was also budgeted to receive special appropriation funding of \$745.0 million.¹¹³

3.13.8 Table 3.13.1 and Table 3.13.2 below provide a summary of the key 2022–23 departmental and administered estimated financial statements items.

111 Includes transfers of annual appropriations via determinations made under section 75 of the *Public Governance, Performance and Accountability Act 2013*.

112 *Supply Act (No. 1) 2022–2023; Supply Act (No. 2) 2022–2023; Supply Act (No. 3) 2022–2023; Supply Act (No. 4) 2022–2023; Appropriation Act (No. 1) 2022–2023; and Appropriation Act (No. 2) 2022–2023*.

113 Part 1: Budget Estimate 2022–23, Special Appropriations Table, *Agency Resourcing, Budget Paper No. 4, 2022–2023*.

Table 3.13.1: Key expenses and total own-sourced income

Expenses and own-source income	Departmental budget (\$m) 2022–23	Administered budget (\$m) 2022–23
Total expenses	3,390.0	2,279.1
Employee benefits	1,574.6	–
Suppliers	1,169.9	1,935.7
Depreciation and amortisation	591.4	110.0
Finance costs	37.0	–
Personal benefits	–	101.2
Grants	–	121.4
Other	17.1	10.8
Total own-source income	210.1	20,866.6
Sale of goods and rendering of services	210.1	143.3
Customs duty	–	16,819.5
Other taxes	–	3,903.8
Net (cost of)/contribution to services	(3,179.9)	18,587.5

Source: Home Affairs' 2022–23 budget as reported in the 2022–23 Portfolio Budget Statements.

Table 3.13.2: Key assets and liabilities

Assets and liabilities	Departmental budget (\$m) 2022–23	Administered budget (\$m) 2022–23
Total assets	4,326.3	1,373.8
Cash and cash equivalents	6.4	107.5
Trade and other receivables	614.3	37.1
Taxation receivables	–	394.2
Land and buildings	2,312.8	635.4
Property, plant and equipment	834.6	173.8
Intangibles	463.8	0.1
Inventories	20.2	–
Other	74.2	25.7
Total liabilities	3,332.5	418.9
Provisions	534.5	11.1

Assets and liabilities	Departmental budget (\$m) 2022–23	Administered budget (\$m) 2022–23
Payables	304.4	403.3
Leases	2,493.7	4.5
Net assets	993.8	954.9

Note: Home Affairs' estimated average staffing level for 2022–23 is 14,120.

Source: Home Affairs' 2022–23 budget as reported in the 2022–23 Portfolio Budget Statements.

Key areas of financial statements risk

3.13.9 The ANAO undertakes appropriate audit procedures on all material items and focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. The ANAO also assesses the information technology (IT) general and application controls for key systems that support the preparation of Home Affairs' financial statements. Areas highlighted for specific audit coverage in 2022–23 are provided below in Table 3.13.3.

Table 3.13.3: Key areas of financial statements risk

Relevant financial statements line item	Key area of risk	Audit risk rating	Factors contributing to risk assessment
<i>Administered</i> customs duty \$16,819.5 million	Accuracy of customs duty KAM	Higher	<ul style="list-style-type: none"> complexity of the broader tariff classification scheme specifically related to products and origin; and complexity of the IT environment used to manage customs duty due to multiple systems across multiple entities.
<i>Administered</i> visa application charges (a component of other taxes \$3,903.8 million)	Accuracy of visa revenue KAM	Higher	<ul style="list-style-type: none"> complexity of the IT environment used to collect revenue.
<i>Administered</i> services rendered — detention (a component of suppliers \$1,935.7 million)	Accuracy and occurrence of expenses incurred in the management of the detention and regional processing network	Moderate	<ul style="list-style-type: none"> complexity of contracts associated with managing the detention and regional processing centres; and the variability of the costs associated with administering the detention and regional processing network.
<i>Administered</i> non-financial assets \$830.4 million <i>departmental</i> non-financial assets \$3,704.6 million	Accuracy, valuation and allocation of non-financial assets	Moderate	<ul style="list-style-type: none"> the complexity of performing valuations in a range of markets given the geographically dispersed land, buildings and equipment including assets located overseas; and decentralised nature of operations and controls.

Source: ANAO 2022–23 risk assessment, and Home Affairs' budgeted financial statements for the year ended 30 June 2023.

Audit results

3.13.10 The ANAO has completed its 2022–23 interim audit coverage, including an assessment of the controls relating to key IT systems and the purchases and payables process.

3.13.11 Audit procedures relating to the evaluation of customs risk treatment strategies, the design and implementation of customs duty compliance processes and non-financial asset valuations will be undertaken as part of the planned 2022–23 final audit.

3.13.12 To date, our audit coverage of the above areas has not identified any new significant or moderate audit findings.

3.13.13 The following table summarises the status of audit findings as at the end of the 2022–23 interim audit as reported by the ANAO.

Table 3.13.4: Status of audit findings raised by the ANAO

Category	Closing position (2021–22 final)	New findings (2022–23 interim)	Resolved findings (2022–23 interim)	Closing position (2022–23 interim)
B	–	1	–	1
Total	–	1	–	1

New moderate audit finding

User access removal

3.13.14 The Protective Security Policy Framework (PSPF) requires non-corporate Commonwealth entities to control access to systems, networks, and applications. The requirement includes removing system access from employee and contractor staff without an operational need for access to IT resources. During the 2022–23 interim audit, the ANAO identified weaknesses in Home Affairs' processes for reviewing and monitoring staff access and user activities performed by staff after they had ceased employment with Home Affairs. The weaknesses resulted in some contractors having access to Home Affairs' systems, networks, and applications after ceasing employment with Home Affairs.

3.13.15 The ANAO recommended that Home Affairs remove access from terminated contractors and staff and review user access logs to determine if access was appropriate and authorised, and update monitoring processes to focus on detection and investigation of user access performed after staff cessation dates. The updated processes should be supported by a risk assessment to confirm the updated processes mitigate the risks associated.

3.13.16 Home Affairs advised that access from terminated contractors had been removed and a review undertaken to confirm that access was appropriate and authorised. Home Affairs also advised that processes to remove user access on termination will be reviewed and strengthened monitoring processes and protocols considered for implementation. The ANAO will review the actions taken by Home Affairs during the planned 2022–23 final audit.

Conclusion

3.13.17 At the completion of the interim audit, and except for the finding outlined above, the ANAO identified that key elements of internal control were operating effectively to provide reasonable assurance that Home Affairs will be able to prepare financial statements that are free from material misstatement. The effective operation of these controls for the full financial year will be assessed in conjunction with additional audit testing during the 2022–23 final audit.

3.14 Department of Industry, Science and Resources

Overview

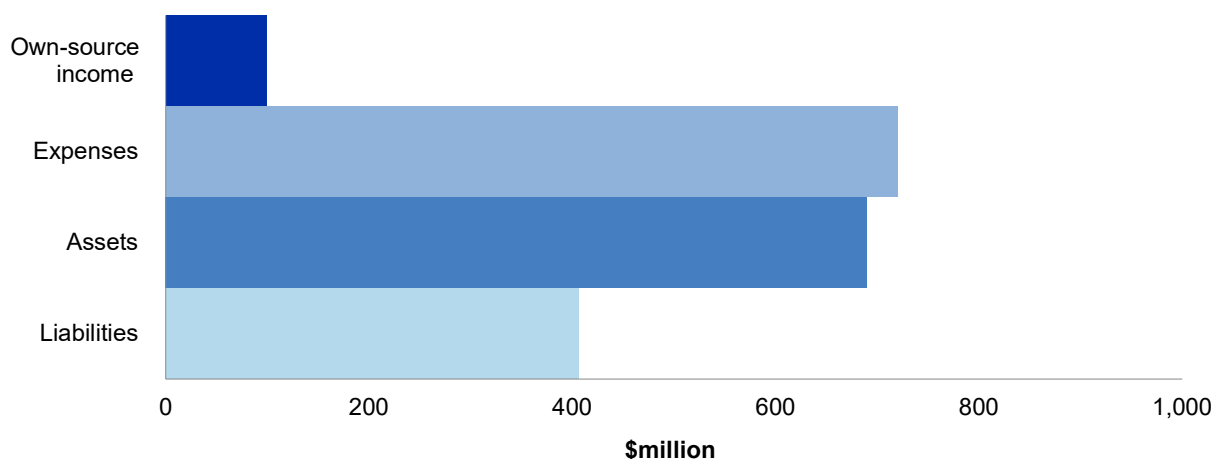
3.14.1 The Department of Industry, Science and Resources (Industry) is responsible for supporting economic growth, productivity and job creation for all Australians by investing in science, technology and commercialisation, growing innovative and competitive businesses, industries and regions, and supporting resources.

3.14.2 Industry offers a grants hub and shared services centre which provides other Commonwealth entities with administrative support including grants administration and payments processing; human resources and financial transactions processing and the provision of management information systems supporting these processes.

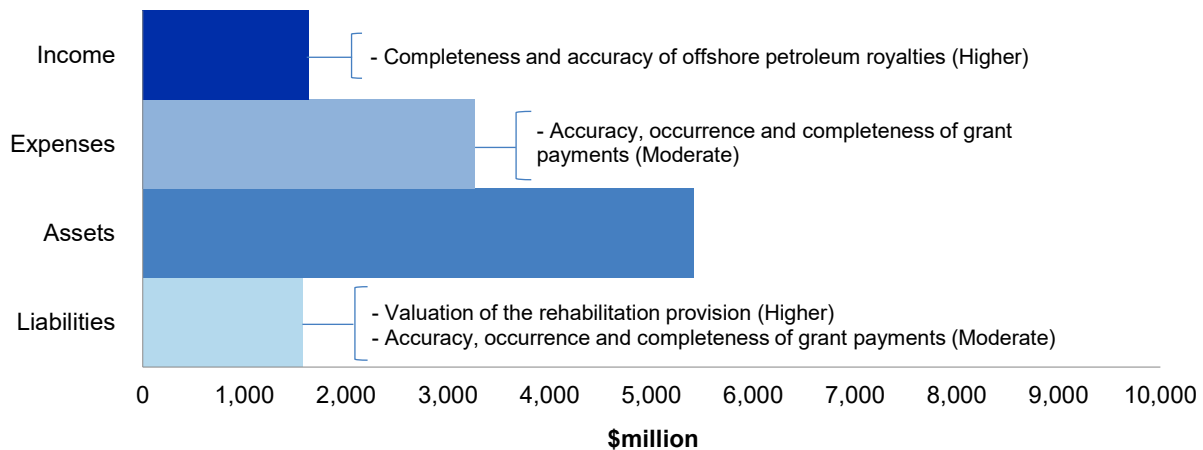
3.14.3 The Administered Arrangements Order (AAO) of 23 June 2022, transferred responsibility for climate change and energy from the former Department of Industry, Science, Energy and Resources to the newly formed Department of Climate Change, Energy, the Environment and Water. A subsequent AAO of 13 October 2022, transferred responsibilities for the Office of Supply Chain Resilience, the Critical Technologies Hub and the Digital Technology Taskforce from the Department of Prime Minister and Cabinet to the Department of Industry, Science, and Resources.

3.14.4 Figure 3.14.1 and Figure 3.14.2 below show the 2022–23 departmental and administered financial statements items reported by Industry and the key areas of financial statements risk.

Figure 3.14.1: Key departmental financial statements items and areas of financial statements risk



Source: ANAO analysis and Industry's revised budget as reported in the 2022–23 Portfolio Budget Statements.

Figure 3.14.2: Key administered financial statements items and areas of financial statements risk

Source: ANAO analysis and Industry's revised budget as reported in the 2022–23 Portfolio Budget Statements.

3.14.5 The ANAO's audit approach identifies key areas of risk that have the potential to impact on Industry's financial statements. The ANAO's risk assessment process considers the nature of the financial statements items and an understanding of Industry's environment and governance arrangements, including its financial reporting regime and system of internal control.

3.14.6 In light of the key areas of risk and the ANAO's understanding of the operations of Industry, the ANAO has assessed the overall risk of material misstatement in the 2022–23 financial statements audit as moderate.

Key financial statements items

3.14.7 Annual appropriation funding¹¹⁴ of \$659.1 million (departmental) and \$2,196.5 million (administered) was provided to Industry in 2022–23 to support the achievement of the entity's outcomes.¹¹⁵ Industry was also budgeted to receive special appropriation funding of \$44.6 million.¹¹⁶

3.14.8 Table 3.14.1 and Table 3.14.2 below provide a summary of the key 2022–23 departmental and administered estimated financial statements items.

114 Includes transfers of annual appropriations via determinations made under section 75 of the *Public Governance, Performance and Accountability Act 2013*.

115 *Supply Act (No. 1) 2022–2023; Supply Act (No. 2) 2022–2023; Supply Act (No. 3) 2022–2023; Supply Act (No. 4) 2022–2023; Appropriation Act (No. 1) 2022–2023; and Appropriation Act (No. 2) 2022–2023*.

116 Part 1: Budget Estimate 2022–23, Special Appropriations Table, *Agency Resourcing, Budget Paper No. 4, 2022–2023*.

Table 3.14.1: Key expenses and total own-sourced income

Expenses and own-source income	Departmental budget (\$m) 2022–23	Administered budget (\$m) 2022–23
Total expenses	719.8	3,264.0
Employee benefits	394.5	9.7
Suppliers	247.6	347.3
Depreciation and amortisation	68.4	1.9
Write-down and impairment of assets	-	5.5
Grants	6.4	-
Grants and subsidies	-	1,562.1
Payments to corporate Commonwealth entities	-	1,330.6
Finance costs	2.9	1.6
Other	-	5.3
Total own-source income	98.9	1,632.3
Royalties	-	1,557.7
Sale of goods and rendering of services	89.1	-
Other	9.8	74.6
Net (cost of) services	(620.9)	(1,631.7)

Source: Industry's 2022–23 budget as reported in the 2022–23 Portfolio Budget Statements.

Table 3.14.2: Key assets and liabilities

Assets and liabilities	Departmental budget (\$m) 2022–23	Administered budget (\$m) 2022–23
Total assets	690.1	5,412.7
Cash and cash equivalents	11.5	489.8
Investments	-	4 151.7
Trade and other receivables	194.0	758.4
Land and buildings	305.4	4.3
Property, plant and equipment	41.4	0.6
Other	137.8	7.9
Total liabilities	405.9	1,572.0
Leases	226.6	3.2
Suppliers	65.6	14.8
Employee provisions	99.7	2.4
Grants payable	5.8	7.0

Assets and liabilities	Departmental budget (\$m) 2022–23	Administered budget (\$m) 2022–23
Other	8.2	1,544.6
Net assets	284.2	3,840.7

Note: Industry's estimated average staffing level for 2022–23 is 2,973.

Source: Industry's 2022–23 budget as reported in the 2022–23 Portfolio Budget Statements.

Key areas of financial statements risk

3.14.9 The ANAO undertakes appropriate audit procedures on all material items and focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. The ANAO also assesses the information technology (IT) general and application controls for key systems that support the preparation of Industry's financial statements. Areas highlighted for specific audit coverage in 2022–23 are provided below in Table 3.14.3.

Table 3.14.3: Key areas of financial statements risk

Relevant financial statements line item	Key area of risk	Audit risk rating	Factors contributing to risk assessment
<i>Administered</i> royalties revenue \$1,557.7 million	Completeness and accuracy of offshore petroleum royalties KAM	Higher	<ul style="list-style-type: none"> reliance on data reporting and administrative functions performed by third parties, including state and foreign governments and other federal government agencies; and calculations are dependent on information provided by taxpayers in a self-assessment regime.
<i>Administered</i> Ranger rehabilitation and Northern Endeavour Decommissioning provision \$1,544.3 million	Valuation of the rehabilitation provision KAM	Higher	<ul style="list-style-type: none"> additional provision recognised in 2021–22 for the decommissioning of the Northern Endeavour Floating Production Storage and Offtake facility; complexity, estimation and significant judgement relating to the forecast and timing of future rehabilitation and decommissioning costs; and reliance on third party data to calculate the estimates.
<i>Administered</i> grant expense (a component of grants and subsidies \$1,562.1 million) grants payable \$7.0 million	Accuracy, occurrence and completeness of grant payments	Moderate	<ul style="list-style-type: none"> significant number of individual grant programs which operate under separate grant agreements and are subject to different eligibility criteria; and reliance on third party acquittals to confirm validity of grant payments.

Source: ANAO 2022–23 risk assessment, and Industry's budgeted financial statements for the year ended 30 June 2023.

3.14.10 The ANAO also considers the results of recent performance audits in identifying risks and designing an approach for the financial statements audit. Auditor-General Report No.42 2021–22 *Procurement of Delivery Partners for the Entrepreneurs' Program* was tabled in June 2022 and is relevant to the financial management and administration of Industry.

3.14.11 The audit report concluded that the design and conduct of the procurement did not comply with the Commonwealth Procurement Rules (CPRs), and the signed contracts were not appropriately managed. These observations are relevant to the administered grant expense outlined in Table 3.14.3.

3.14.12 The observations of this report were considered in designing audit procedures relating to administered grants expenses and payables.

Audit results

3.14.13 The ANAO has completed its 2022–23 interim audit coverage, including an assessment of the controls relating to employee and supplier expenditure; appropriations and special accounts; and asset and cash management. The interim audit coverage has also included assessments of controls relating to selected departmental revenue streams, grants payments and IT general and applications controls for key financial systems.

3.14.14 Audit procedures relating to the completeness and accuracy of royalties, the valuation of administered investments, and the Ranger and Northern Endeavour rehabilitation provision will be undertaken as part of the planned 2022–23 final audit.

3.14.15 To date, our audit coverage of the above areas has not identified any new significant or moderate audit findings.¹¹⁷

Conclusion

3.14.16 Based on our audit coverage to date, key elements of internal control were operating effectively to provide reasonable assurance that Industry will be able to prepare financial statements that are free from material misstatement. The effective operation of these internal controls for the full financial year will be assessed during the 2022–23 final audit.

117 The 2021–22 audit also did not identify any significant or moderate audit findings.

3.15 Department of Infrastructure, Transport, Regional Development, Communications and the Arts

Overview

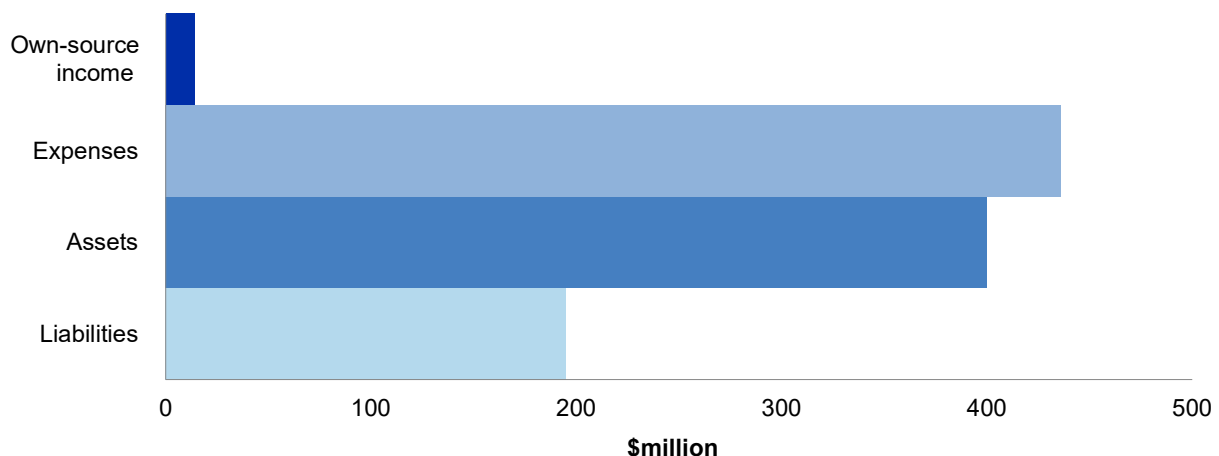
3.15.1 The Department of Infrastructure, Transport, Regional Development, Communications and the Arts (Infrastructure) is responsible for improving infrastructure across Australia through funding cooperation of transport and other infrastructure; providing an efficient, sustainable, competitive and safe transport system for all transport users; strengthening the sustainability, capacity and diversity of regional economies; providing advice on population policy; implementing the national policy on cities; and promoting an innovative and competitive communications sector. The department also promotes participation in and access to, Australia's arts and culture through developing and supporting cultural expression and supports governance arrangements in the Australian territories.

3.15.2 On 1 June and 23 June 2022, revised Administrative Arrangements Orders were issued by the Australian Government. As a result, on 1 July 2022, a Machinery of Government (MoG) change occurred with the following impacts for Infrastructure:

- functions related to water were transferred to the newly created Department of Climate Change, Energy, the Environment and Water (DCCEEW); and
- the function related to copyright was transferred to the Attorney-General's Department.

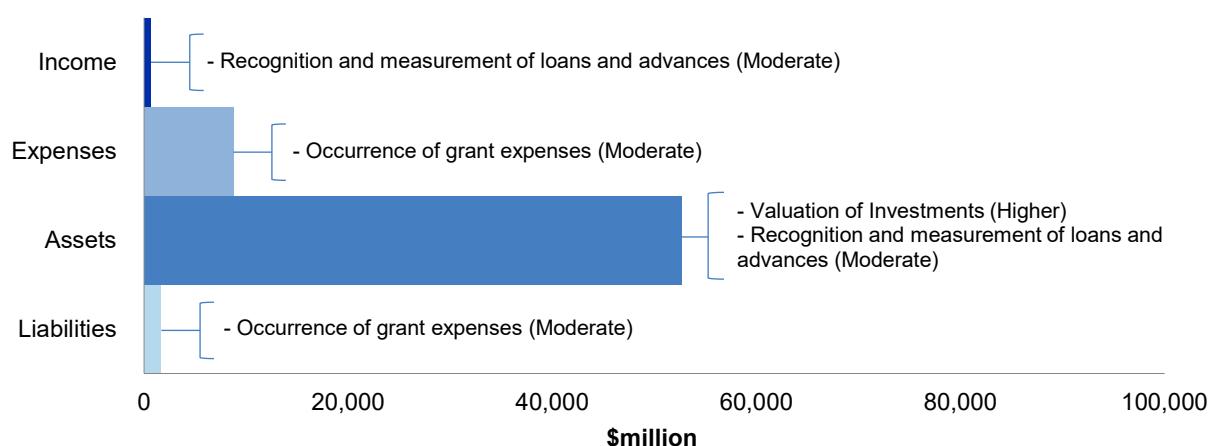
3.15.3 Figure 3.15.1 and Figure 3.15.2 below show the 2022–23 departmental and administered financial statements items reported by Infrastructure and the key areas of financial statements risk.

Figure 3.15.1: Key departmental financial statements items and areas of financial statements risk



Source: ANAO analysis and Infrastructure's budget as reported in the 2022–23 Portfolio Budget Statements.

Figure 3.15.2: Key administered financial statements items and areas of financial statements risk



Source: ANAO analysis and Infrastructure's budget as reported in the 2022–23 Portfolio Budget Statements.

3.15.4 The ANAO's audit approach identifies key areas of risk that have the potential to impact on Infrastructure's financial statements. The ANAO's risk assessment process considers the nature of the financial statements items and an understanding of Infrastructure's environment and governance arrangements, including its financial reporting regime and system of internal control.

3.15.5 In light of the key areas of risk and the ANAO's understanding of the operations of Infrastructure, the ANAO has assessed the overall risk of material misstatement in the 2022–23 financial statements audit as moderate.

Key financial statements items

3.15.6 Annual appropriation funding¹¹⁸ of \$415.5 million (departmental) and \$7,579.7 million (administered) was provided to Infrastructure in 2022–23 to support the achievement of the entity's outcomes.¹¹⁹ Infrastructure was also budgeted to receive special appropriation funding of \$1,809.9 million.¹²⁰

3.15.7 Table 3.15.1 and Table 3.15.2 below provide a summary of the key 2022–23 departmental and administered estimated financial statements items.

118 Includes transfers of annual appropriations via determinations made under section 75 of the *Public Governance, Performance and Accountability Act 2013*.

119 *Supply Act (No. 1) 2022–2023; Supply Act (No. 2) 2022–2023; Supply Act (No. 3) 2022–2023; Supply Act (No. 4) 2022–2023; Appropriation Act (No. 1) 2022–2023; and Appropriation Act (No. 2) 2022–2023*.

120 Part 1: Budget Estimate 2022–23, Special Appropriations Table, *Agency Resourcing, Budget Paper No. 4, 2022–2023*.

Table 3.15.1: Key expenses and total own-sourced income

Expenses and own-source income	Departmental budget (\$m) 2022–23	Administered budget (\$m) 2022–23
Total expenses	435.9	8,811.8
Employee benefits	261.1	17.0
Suppliers	131.4	700.4
Depreciation and amortisation	37.0	62.5
Grants	4.4	4,680.5
Subsidies	–	1,018.0
Payments to corporate Commonwealth entities	–	2,160.0
Write down and impairment of assets	–	24.6
Other	2.0	148.9
Total own-source income	14.4	665.3
Sale of goods and rendering of services	6.3	52.9
Rental income	2.0	4.4
Fees and fines	–	166.9
Interest	–	379.6
Other taxes	–	29.9
Other	6.1	31.7
Net (cost of) services	(421.5)	(8,146.5)

Source: Infrastructure's 2022–23 budget as reported in the 2022–23 Portfolio Budget Statements.

Table 3.15.2: Key assets and liabilities

Assets and liabilities	Departmental budget (\$m) 2022–23	Administered budget (\$m) 2022–23
Total assets	399.6	52,637.0
Cash and cash equivalents	18.4	50.0
Trade and other receivables	144.1	8,880.9
Other financial assets	3.4	82.3
Other investments	–	42,681.5
Land and buildings	91.1	210.5
Property, plant and equipment	16.6	537.5
Other	126.0	194.3
Total liabilities	195.5	1,608.7
Suppliers	26.0	272.7

Assets and liabilities	Departmental budget (\$m) 2022–23	Administered budget (\$m) 2022–23
Subsidies	–	38.6
Grants	–	147.7
Interest Bearing Liabilities (Leases)	79.5	–
Employee provisions	84.2	4.2
Other	5.8	1,145.5
Net assets	204.1	51,028.3

Note: Infrastructure's estimated average staffing level for 2022–23 is 1,772.

Source: Infrastructure's 2022–23 budget as reported in the 2022–23 Portfolio Budget Statements.

Key areas of financial statements risk

3.15.8 The ANAO undertakes appropriate audit procedures on all material items and focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. The ANAO also assesses the information technology (IT) general and application controls for key systems that support the preparation of Infrastructure's financial statements. Areas highlighted for specific audit coverage in 2022–23 are provided below in Table 3.15.3.

Table 3.15.3: Key areas of financial statements risk

Relevant financial statements line item	Key area of risk	Audit risk rating	Factors contributing to risk assessment
<i>Administered</i> investments \$42,681.5 million	Valuation of investments KAM	Higher	<ul style="list-style-type: none"> complex discounted cash flow models that require significant judgements in the selection of assumptions and inputs, including estimated future cash flows, weighted average cost of capital, terminal values and discount rates that are based on primarily unobservable data; and the significance of the balance of administered investments to the financial statements.

Relevant financial statements line item	Key area of risk	Audit risk rating	Factors contributing to risk assessment
<i>Administered</i> receivables \$8,880.9 million loan interest revenue \$379.6 million	Recognition and measurement of loans and advances KAM	Moderate	<ul style="list-style-type: none"> the level of management judgement involved in calculating expected credit losses including the recoverability of the loans at balance date particularly determining whether any deterioration in credit quality of loan recipients has occurred; and complexity of the valuation and required calculations for loan balances which attract concessional terms, including the level of estimation required to determine the appropriate market rate for the concessional component of new loans.
<i>Administered</i> grants expenses \$4,680.5 million grants payable \$147.7 million	Occurrence of grant expenses	Moderate	<ul style="list-style-type: none"> complex, significant and diverse range of programs that include various different administrative and legislative arrangements and conditions which impact payments; and level of subjectivity and judgement applied in determining whether a recipient meets eligibility and funding milestone requirements.

Source: ANAO 2022–23 risk assessment, and Infrastructure’s budgeted financial statements for the year ended 30 June 2023.

Audit results

3.15.9 The ANAO has completed its 2022–23 interim audit coverage, including an assessment of the controls relating to: accounting for non-financial assets; grants expenses; supplier expenses and employee payroll. Interim audit coverage has also included an assessment of IT general controls including security and change management processes relevant to the financial management information systems and human resources management information system.

3.15.10 Audit procedures relating to: valuation of administered investments, accuracy of subsidy claims for the Tasmanian Freight Equalisation Scheme and Regional Broadband Scheme; valuation of other assets including non-financial assets and loans and advances will be undertaken as part of the planned 2022–23 final audit.

3.15.11 The following table summarises the status of audit findings as at the end of the 2022–23 interim audit as reported by the ANAO.

Table 3.15.4: Status of audit findings raised by the ANAO

Category	Closing position (2021–22 final)	New findings (2022–23 interim)	Resolved findings (2022–23 interim)	Closing position (2022–23 interim)
B	1	–	–	1
Total	1	–	–	1

Unresolved moderate audit finding**User access removal**

3.15.12 During the 2021–22 audit, the ANAO identified that Infrastructure did not have sufficient controls in place to identify and perform timely investigations over access by users post cessation of their employment or contract. Infrastructure has made progress in addressing the weakness reported with most access post cessation being identified and investigated but weaknesses remain.

3.15.13 Infrastructure has confirmed that weaknesses in the processes have been addressed and all access post cessation are now properly identified and investigated. The ANAO will review the action taken by Infrastructure during the 2022–23 final audit.

Conclusion

3.15.14 At the completion of the interim audit, and except for the finding outlined above, the ANAO identified that key elements of internal control were operating effectively to provide reasonable assurance that Infrastructure will be able to prepare financial statements that are free from material misstatement. The effective operation of these controls for the full financial year will be assessed in conjunction with additional audit testing during the 2022–23 final audit.

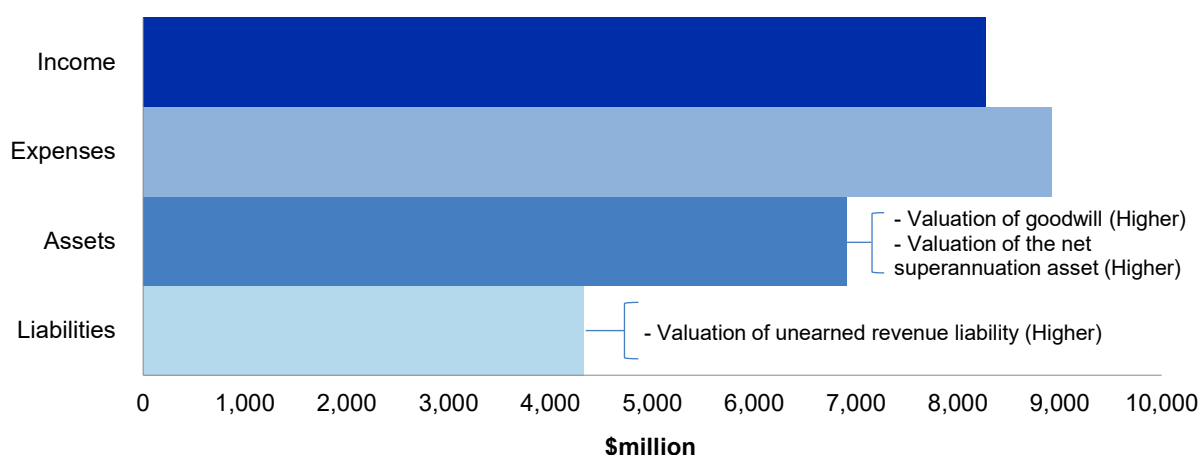
3.16 Australian Postal Corporation

Overview

3.16.1 The Australian Postal Corporation (Australia Post) is a government business enterprise responsible for supplying postal services to Australia, including the distribution of letters and parcels in Australia and internationally.

3.16.2 Figure 3.16.1 below shows the 2021–22 financial statements items reported by Australia Post and the key areas of financial statements risk.

Figure 3.16.1: Key financial statements items and areas of financial statements risk



Source: ANAO analysis and Australia Post's audited financial statements for the year ended 30 June 2022.

3.16.3 The ANAO's audit approach identifies key areas of risk that have the potential to impact on Australia Post's financial statements. The ANAO's risk assessment process considers the nature of the financial statements items and an understanding of Australia Post's environment and governance arrangements, including its financial reporting regime and system of internal control.

3.16.4 In light of the key areas of risk and the ANAO's understanding of the operations of Australia Post, the ANAO has assessed the overall risk of material misstatement in the 2022–23 financial statements audit as moderate.

Key financial statements items

3.16.5 Australia Post does not receive any annual appropriation funding. The operational functions of Australia Post are funded from the following sources: parcel services; mail services; and retail, agency and other services. Australia Post pays a dividend to the Commonwealth from its profit after income tax.

3.16.6 Table 3.16.1 and Table 3.16.2 below provide a summary of the key items from the 2021–22 audited financial statements.

Table 3.16.1: Key expenses and total income

Expenses and income	Actual (\$m) 2021–22
Total expenses	8,880.8
Employee benefits	3,377.9
Suppliers	4,890.6
Depreciation and amortisation	543.6
Other	68.7
Total income	8,973.9
Goods and services	8,864.1
Other	109.8
Profit before income tax	55.3
Income tax expense	(5.8)
Profit after income tax	49.5

Source: Australia Post's 2021–22 audited financial statements.

Table 3.16.2: Key assets and liabilities

Assets and liabilities	Actual (\$m) 2021–22
Total assets	6,903.1
Cash and cash equivalents	380.9
Trade and other receivables	820.0
Property, plant and equipment	1,906.7
Intangible assets	798.6
Investment property	160.5
Net superannuation asset	950.5
Deferred tax assets	656.7
Right of use assets	957.9
Other	271.3
Total liabilities	4,325.9
Trade and other payables	1,208.9
Employee provisions	1,010.3
Interest bearing liabilities	350.3
Deferred tax liabilities	609.7
Lease liabilities	1,066.0

Assets and liabilities	Actual (\$m) 2021–22
Other	80.7
Net assets	2,577.2

Note: Australia Post's staffing level at 30 June 2022 was 36,374 including non-ongoing contractors as reported in the 2021–22 annual report.

Source: Australia Post's 2021–22 audited financial statements.

Key areas of financial statements risk

3.16.7 The ANAO undertakes appropriate audit procedures on all material items and focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. The ANAO also assesses the information technology (IT) general and application controls for key systems that support the preparation of Australia Post's financial statements. Areas highlighted for specific audit coverage in 2022–23 are provided below in Table 3.16.3.

Table 3.16.3: Key areas of financial statements risk

Relevant financial statements line item	Key area of risk	Audit risk rating	Factors contributing to risk assessment
Goods and services income \$8,864.1 million unearned postage revenue (a component of trade and other payables \$296.4 million)	Valuation of unearned revenue liability KAM	Higher	<ul style="list-style-type: none"> judgement is applied by management in estimating the amount of postage products sold which are still unused at balance sheet date; and complexity in estimating the expected timing and amount of future utilisation of those unused postage products.
intangible assets goodwill (a component of intangible assets \$507.8 million)	Valuation of goodwill KAM	Higher	<ul style="list-style-type: none"> the estimation process is complex and involves the exercise of significant judgement in relation to the selection of assumptions such as the discount rate and cash flow forecasts.
net superannuation asset \$950.5 million	Valuation of the net superannuation asset KAM	Higher	<ul style="list-style-type: none"> the valuation is sensitive to movements in the long-term assumptions; and judgement is applied by management in relation to the selection of long-term assumptions such as salary growth, discount and inflation rates.

Source: ANAO 2022–23 risk assessment, and Australia Post's audited financial statements for the year ended 30 June 2022.

Audit results

3.16.8 The ANAO has completed its 2022–23 interim audit coverage, including an assessment of the controls relating to: employee benefits; suppliers; and goods and services income. In addition, audit procedures have been completed over cash and cash equivalents; trade and other receivables; property, plant and equipment; trade and other payables; and employee provisions.

3.16.9 Interim coverage also included testing of the IT general controls and application controls of key systems supporting the financial statements.

3.16.10 Audit procedures relating to the remaining balances, including valuations of unearned delivery revenue, intangible assets goodwill and the net superannuation asset, will be completed as part of the 2022–23 final audit.

3.16.11 To date, our audit coverage of the above areas has not identified any new significant or moderate audit findings.¹²¹

Conclusion

3.16.12 Based on our audit coverage to date, key elements of internal control were operating effectively to provide reasonable assurance that Australia Post will be able to prepare financial statements that are free from material misstatement. The effective operation of these internal controls for the full financial year will be assessed during the 2022–23 final audit.

121 The 2021–22 audit also did not identify any significant or moderate audit findings.

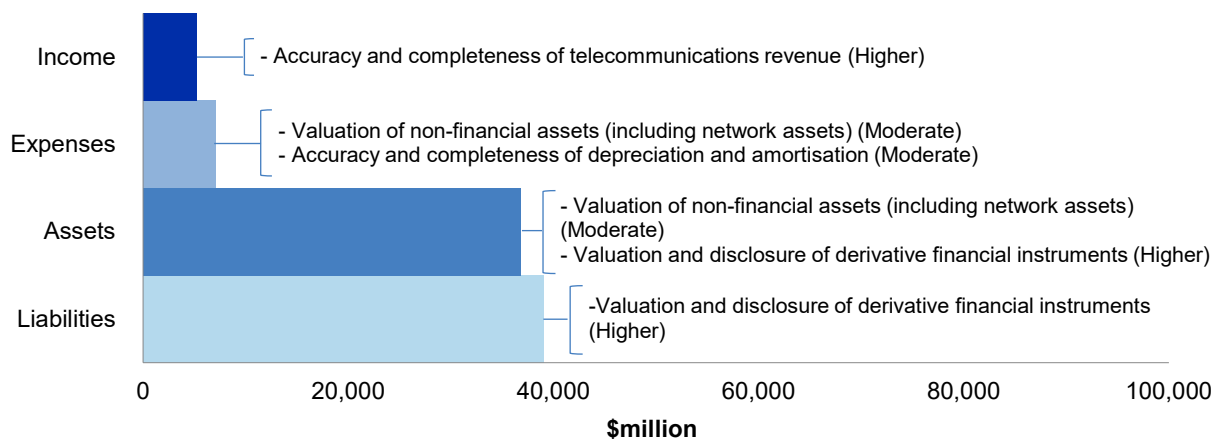
3.17 NBN Co Limited

Overview

3.17.1 The primary objective of NBN Co Limited (NBN Co) is to provide wholesale services to internet service providers. NBN Co is a government business enterprise incorporated under the *Corporations Act 2001*.

3.17.2 Figure 3.17.1 below shows the 2021–22 financial statements items reported by NBN Co and the key areas of financial statements risk.

Figure 3.17.1: Key financial statements items and areas of financial statements risk



Source: ANAO analysis and NBN Co's audited financial statements for the year ended 30 June 2022.

3.17.3 The ANAO's audit approach identifies key areas of risk that have the potential to impact on NBN Co's financial statements. The ANAO's risk assessment process considers the nature of the financial statements items and an understanding of NBN Co's environment and governance arrangements, including its financial reporting regime and system of internal control.

3.17.4 In light of the key areas of risk and the ANAO's understanding of the operations of NBN Co, the ANAO has assessed the overall risk of material misstatement in the 2022–23 financial statements audit as high.

Key financial statements items

3.17.5 NBN Co does not receive any annual appropriation funding. The operational functions of NBN Co are funded from the following sources: telecommunications revenue, borrowings from the Australian Government, bank facilities, capital debt markets and grants.

3.17.6 Table 3.17.1 and Table 3.17.2 below provide a summary of the key 2021–22 audited financial statements items.

Table 3.17.1: Key expenses and total own-sourced income

Expenses and own-source income	Actual (\$m) 2021–22
Total expenses	7,043
Subscriber costs	175
Depreciation and amortisation expense	3,541
Employee benefits expenses	647
Direct network costs	730
Net finance costs	1,470
Other operating expenses	480
Total own-source income	6,504
Revenue	5,103
Other income	73
Income tax benefit	399
Other comprehensive gain	929
(Loss) after income tax	(539)

Source: NBN Co's 2021–22 audited financial statements.

Table 3.17.2: Key assets and liabilities

Assets and liabilities	Actual (\$m) 2021–22
Total assets	36,777
Cash and cash equivalents	113
Trade and other receivables	503
Property, plant and equipment	32,868
Intangible assets	1,755
Other assets	1,538
Total liabilities	39,056
Trade and other payables	1,596
Derivative financial liabilities	169
Borrowings	18,204
Other liabilities	8,136
Lease liabilities	10,951
Net (liabilities)	(2,279)

Note: NBN Co's staffing level at 30 June 2022 was 4,728 including non-ongoing contractors as reported in the 2021–22 annual report.

Source: NBN Co's 2021–22 audited financial statements.

Key areas of financial statements risk

3.17.7 The ANAO undertakes appropriate audit procedures on all material items and focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. The ANAO also assesses the information technology (IT) general and application controls for key systems that support the preparation of NBN Co's financial statements. Areas highlighted for specific audit coverage in 2022–23 are provided below in Table 3.17.3.

Table 3.17.3: Key areas of financial statements risk

Relevant financial statements line item	Key area of risk	Audit risk rating	Factors contributing to risk assessment
Telecommunications revenue \$5,103 million	Accuracy and occurrence of telecommunications revenue KAM	Higher	<ul style="list-style-type: none"> complexity of revenue recognition and reporting from the ongoing rollout of the network and the number of IT systems used to record and manage information.
Derivative financial assets (a component of other assets \$1,538 million) derivative financial liabilities \$169 million	Valuation and disclosure of derivative financial instruments KAM (valuation)	Higher	<ul style="list-style-type: none"> volume, quantum and complexity of the derivative arrangements entered into; and complexity in the valuation, accounting, and disclosure requirements for financial instruments and borrowings due to assumptions involved.
Depreciation and amortisation \$3,541 million	Accuracy and completeness of depreciation and amortisation KAM	Moderate	<ul style="list-style-type: none"> significant judgement in determining the useful lives and the use of complex manual models in the calculation of depreciation and amortisation.
Property, plant and equipment \$32,868 million intangible assets \$1,755 million depreciation and amortisation \$3,541 million	Valuation of non-financial assets (including network assets)	Moderate	<ul style="list-style-type: none"> significant judgement in the determination and application of useful lives; and the value of non-financial assets is subject to a high degree of judgement and complexity.

Source: ANAO 2022–23 risk assessment, and NBN Co's audited financial statements for the year ended 30 June 2022.

Audit results

3.17.8 The ANAO has completed its 2022–23 interim audit coverage, including an assessment of the controls relating to: revenue and receivables; purchases and payables; payroll; inventory; treasury, including derivatives and borrowings; non-financial assets, including lease management; accounting for the Telstra and Optus agreements; and design and implementation of IT general and application controls.

3.17.9 Additional audit procedures relating to valuation of non-financial assets, depreciation and amortisation expense, and testing of IT general and application controls will be undertaken as part of the planned 2022–23 final audit.

3.17.10 To date, our audit coverage of the above areas has not identified any new significant or moderate audit findings.¹²²

Conclusion

3.17.11 Based on our audit coverage to date, key elements of internal control were operating effectively to provide reasonable assurance that NBN Co will be able to prepare financial statements that are free from material misstatement. The effective operation of these internal controls for the full financial year will be assessed during the 2022–23 final audit.

122 The 2021–22 audit also did not identify any significant or moderate audit findings.

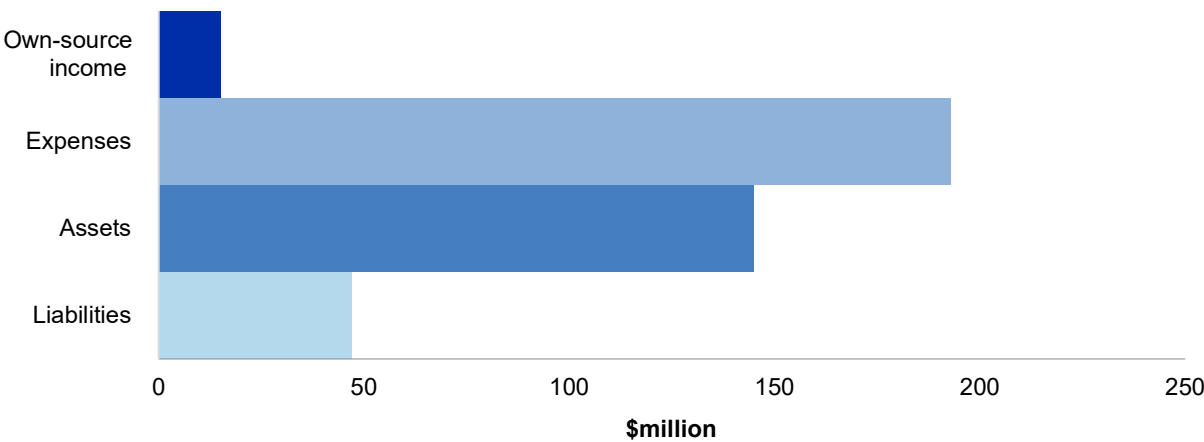
3.18 Department of Parliamentary Services

Overview

3.18.1 The Department of Parliament Services (DPS) is responsible for supporting the Parliament through the provision of a range of services including library, Hansard, broadcasting, communications, and building security and maintenance.

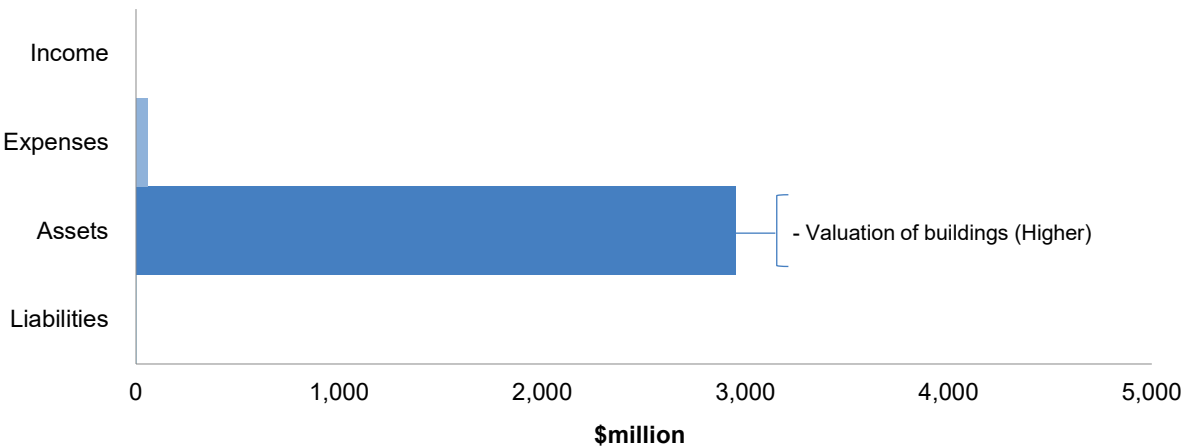
3.18.2 Figure 3.18.1 and Figure 3.18.2 below show the 2022–23 departmental and administered financial statements items reported by DPS and the key areas of financial statements risk.

Figure 3.18.1: Key departmental financial statements items and areas of financial statements risk



Source: ANAO analysis and DPS’ budget as reported in the 2022–23 Portfolio Budget Statements.

Figure 3.18.2: Key administered financial statements items and areas of financial statements risk



Source: ANAO analysis and DPS’ budget as reported in the 2022–23 Portfolio Budget Statements.

3.18.3 The ANAO's audit approach identifies key areas of risk that have the potential to impact on DPS’s financial statements. The ANAO’s risk assessment process considers the nature of the

financial statements items and an understanding of DPS's environment and governance arrangements, including its financial reporting regime and system of internal control.

3.18.4 In light of the key areas of risk and the ANAO's understanding of the operations of DPS, the ANAO has assessed the overall risk of material misstatement in the 2022–23 financial statements audit as low.

Key financial statements items

3.18.5 Annual appropriation funding of \$175.4 million (departmental) and \$54.0 million (administered) was provided to DPS in 2022–23 to support the achievement of the entity's outcomes.¹²³

3.18.6 Table 3.18.1 and Table 3.18.2 below provide a summary of the key 2022–23 departmental and administered estimated financial statements items.

Table 3.18.1: Key expenses and total own-sourced income

Expenses and own-source income	Departmental budget (\$m) 2022–23	Administered budget (\$m) 2022–23
Total expenses	185.9	59.8
Employee benefits	108.6	–
Suppliers	62.2	5.6
Depreciation and amortisation	21.8	50.3
Total own-source income	15.0	–
Sale of goods and rendering of services	14.1	–
Other	0.9	–
Net (cost of) services	(177.7)	(55.9)

Source: DPS' 2022–23 budget as reported in the 2022–23 Portfolio Budget Statements.

Table 3.18.2: Key assets and liabilities

Assets and liabilities	Departmental budget (\$m) 2022–23	Administered budget (\$m) 2022–23
Total assets	145.4	2,950.7
Taxation receivables	–	–
Cash and cash equivalents	1.1	–
Trade and other receivables	34.6	0.8
Land and buildings	6.7	2,764.4
Property, plant and equipment	47.4	50.7

123 Supply (Parliamentary Departments) Act (No. 1) 2022–2023; Supply (Parliamentary Departments) Act (No. 2) 2022–2023; and Appropriation (Parliamentary Departments) Act (No. 1) 2022–2023.

Assets and liabilities	Departmental budget (\$m) 2022–23	Administered budget (\$m) 2022–23
Intangibles	49.7	8.6
Heritage and cultural	–	126.4
Inventories	0.2	–
Other non-financial assets	5.7	0.5
Total liabilities	47.2	1.7
Suppliers	8.4	0.9
Other payables	4.3	0.7
Leases	6.7	–
Employee provisions	27.8	–
Net assets	98.2	2,949.9

Note: DPS' estimated average staffing level for 2022–23 is 968.

Source: DPS' 2022–23 budget as reported in the 2022–23 Portfolio Budget Statements.

Key areas of financial statements risk

3.18.7 The ANAO undertakes appropriate audit procedures on all material items and focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. The ANAO also assesses the information technology (IT) general and application controls for key systems that support the preparation of DPS' financial statements. Areas highlighted for specific audit coverage in 2022–23 are provided below in Table 3.18.3.

Table 3.18.3: Key areas of financial statements risk

Relevant financial statements line item	Key area of risk	Audit risk rating	Factors contributing to risk assessment
<i>Administered</i> buildings (a component of land and buildings \$2,764.4 million)	Valuation of buildings KAM	Higher	<ul style="list-style-type: none"> the valuation is complex due to the unique nature of each building component that comprises Parliament House; and significant judgement is exercised in making the estimation, which is based on current replacement cost and useful life.

Source: ANAO 2022–23 risk assessment, and DPS' budgeted financial statements for the year ended 30 June 2023.

Audit results

3.18.8 The ANAO has completed its 2022–23 interim audit coverage, including an assessment of the controls relating to: cash, asset management, payroll processing and revenue. In addition, the ANAO has undertaken testing of IT general controls over the financial management and human resource management information systems.

3.18.9 Audit procedures, including testing of the valuation of non-financial assets and employee provisions and supplier expenses will be undertaken as part of the planned 2022–23 final audit.

3.18.10 To date, our audit coverage of the above areas has not identified any new significant or moderate audit findings.

Conclusion

3.18.11 Based on our audit coverage to date, key elements of internal control were operating effectively to provide reasonable assurance that DPS will be able to prepare financial statements that are free from material misstatement. The effective operation of these internal controls for the full financial year will be assessed during the 2022–23 final audit.

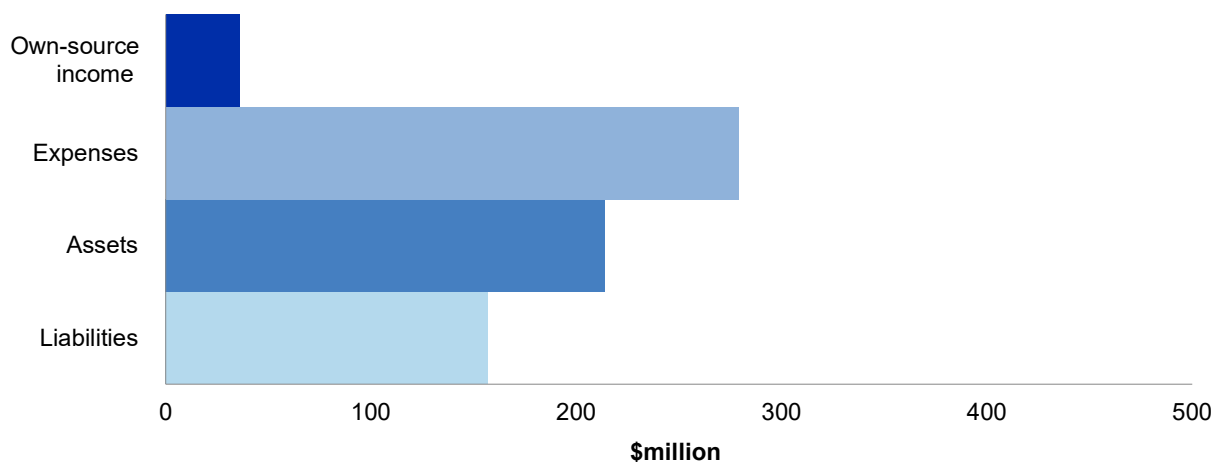
3.19 Department of the Prime Minister and Cabinet

Overview

3.19.1 The Department of the Prime Minister and Cabinet's (PM&C) key purposes are to support the Prime Minister as the head of the Australian Government and the Cabinet, and to provide advice on major domestic policy and international and national security matters.

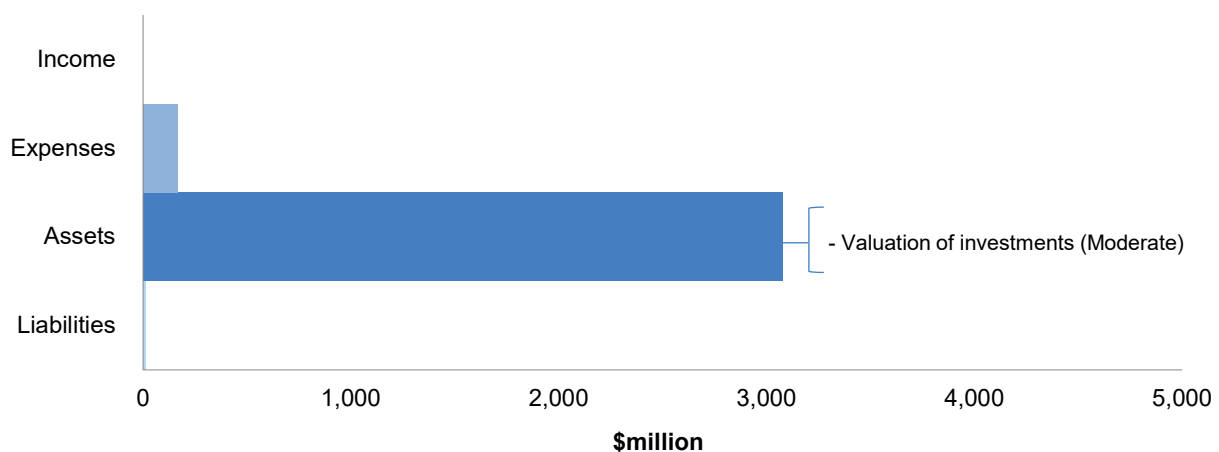
3.19.2 Figure 3.19.1 and Figure 3.19.2 below show the 2022–23 departmental and administered financial statements items reported by PM&C and the key areas of financial statements risk.

Figure 3.19.1: Key departmental financial statements items and areas of financial statements risk



Source: ANAO analysis and PM&C's budget as reported in the 2022–23 Portfolio Budget Statements.

Figure 3.19.2: Key administered financial statements items and areas of financial statements risk



Source: ANAO analysis and PM&C's budget as reported in the 2022–23 Portfolio Budget Statements.

3.19.3 The ANAO's audit approach identifies key areas of risk that have the potential to impact on PM&C's financial statements. The ANAO's risk assessment process considers the nature of the financial statements items and an understanding of PM&C's environment and governance arrangements, including its financial reporting regime and system of internal control.

3.19.4 In light of the key areas of risk and the ANAO's understanding of the operations of PM&C, the ANAO has assessed the overall risk of material misstatement in the 2022–23 financial statements audit as moderate.

Key financial statements items

3.19.5 Annual appropriation funding¹²⁴ of \$243.6 million (departmental) and \$55.9 million (administered) was provided to PM&C in 2022–23 to support the achievement of the entity's outcomes.¹²⁵ PM&C was also budgeted to receive special appropriation funding of \$10,000.¹²⁶

3.19.6 Table 3.19.1 and Table 3.19.2 below provide a summary of the key 2022–23 departmental and administered estimated financial statements items.

Table 3.19.1: Key expenses and total own-sourced income

Expenses and own-source income	Departmental budget (\$m) 2022–23	Administered budget (\$m) 2022–23
Total expenses	279.0	166.0
Employee benefits	148.5	1.7
Suppliers	109.5	2.4
Depreciation and amortisation	19.7	0.6
Grants	–	48.6
Payments to corporate entities	–	112.4
Other	1.3	0.3
Total own-source income	36.3	–
Sale of goods and rendering of services	36.3	–
Interest	–	–
Other	–	–
Net (cost of) services	(242.7)	(166.0)

Source: PM&C's 2022–23 budget as reported in the 2022–23 Portfolio Budget Statements.

124 Includes transfers of annual appropriations via determinations made under section 75 of the *Public Governance, Performance and Accountability Act 2013*.

125 *Supply Act (No. 1) 2022–2023*; *Supply Act (No. 3) 2022–2023*; and *Appropriation Act (No. 1) 2022–2023*.

126 Part 1: Budget Estimate 2022–23, Special Appropriations Table, *Agency Resourcing, Budget Paper No. 4, 2022–2023*.

Table 3.19.2: Key assets and liabilities

Assets and liabilities	Departmental budget (\$m) 2022–23	Administered budget (\$m) 2022–23
Total assets	214.2	3,075.6
Cash and cash equivalents	1.9	–
Trade and other receivables	49.9	–
Land and buildings	118.3	62.8
Property, plant and equipment	17.6	0.7
Intangibles	15.2	–
Administered investments in other Commonwealth entities	–	3,012.0
Other	11.3	0.1
Total liabilities	156.9	14.1
Suppliers	11.0	0.3
Leases	96.2	0.3
Employee provisions	45.5	0.7
Other	4.2	12.8
Net assets	57.3	3,061.5

Note: PM&C's estimated average staffing level for 2022–23 is 1,182.

Source: PM&C's 2022–23 budget as reported in the 2022–23 Portfolio Budget Statements.

Key areas of financial statements risk

3.19.7 The ANAO undertakes appropriate audit procedures on all material items and focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. The ANAO also assesses the information technology (IT) general and application controls for key systems that support the preparation of PM&C's financial statements. Areas highlighted for specific audit coverage in 2022–23 are provided below in Table 3.19.3.

Table 3.19.3: Key areas of financial statements risk

Relevant financial statements line item	Key area of risk	Audit risk rating	Factors contributing to risk assessment
<i>Administered</i> investments in Commonwealth entities \$3,012.0 million	Valuation of investments	Moderate	<ul style="list-style-type: none"> judgement is required in the selection of valuation techniques and underlying assumptions applied by PM&C to determine the fair value of investments in Commonwealth entities.

Source: ANAO 2022–23 risk assessment, and PM&C's budgeted financial statements for the year ended 30 June 2023.

Audit results

3.19.8 The ANAO has completed its 2022–23 interim audit coverage, including an assessment of the IT general controls and testing of: leave processing; grants; bank accounts; payments to suppliers; revenue receipts; asset additions; accounts payable and receivable; credit cards; and payroll.

3.19.9 Audit procedures relating to: IT application controls; administered investments; employee benefits and provisions; stocktakes; and asset revaluations will be undertaken as part of the planned 2022–23 final audit.

3.19.10 To date, our audit coverage of the above areas has not identified any new significant or moderate audit findings.¹²⁷

Conclusion

3.19.11 Based on our audit coverage to date, key elements of internal control were operating effectively to provide reasonable assurance that PM&C will be able to prepare financial statements that are free from material misstatement. The effective operation of these internal controls for the full financial year will be assessed during the 2022–23 final audit.

127 The 2021–22 audit also did not identify any significant or moderate audit findings.

3.20 National Indigenous Australians Agency

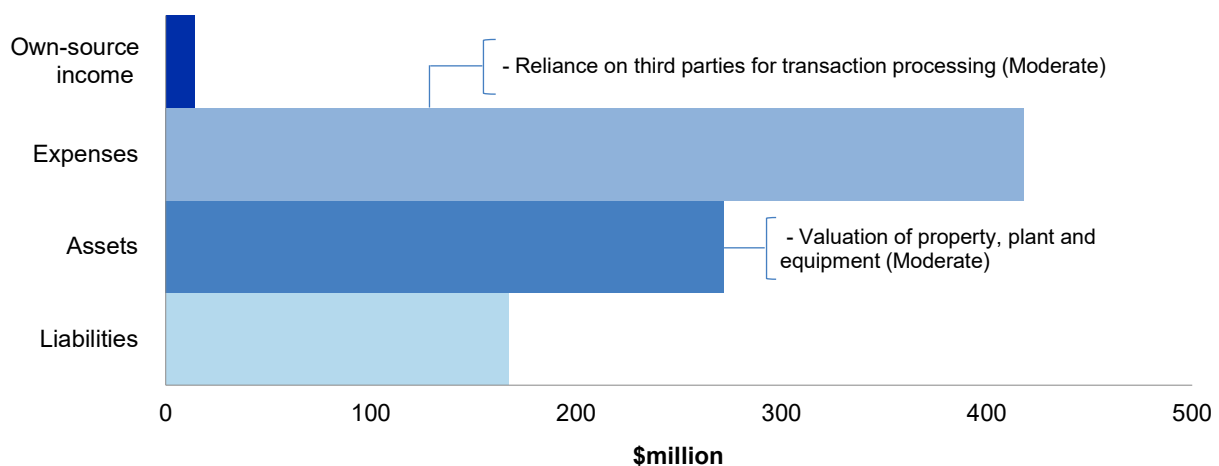
Overview

3.20.1 The National Indigenous Australians Agency (NIAA) was established on 1 July 2019 by an executive order of the Governor-General. The primary functions of the NIAA are:

- providing advice on whole-of-government priorities for Aboriginal and Torres Strait Islander people to the Minister for Indigenous Australians, the Assistant Minister for Indigenous Australians, and the Special Envoy for the Reconciliation and the implementation of the Uluru Statement from the Heart;
- leading and coordinating the implementation of Australia's Closing the Gap targets in partnership with First Nations peoples and communities; and
- building and maintaining effective partnerships with Aboriginal and Torres Strait Islander people, state and territory governments and other stakeholders.

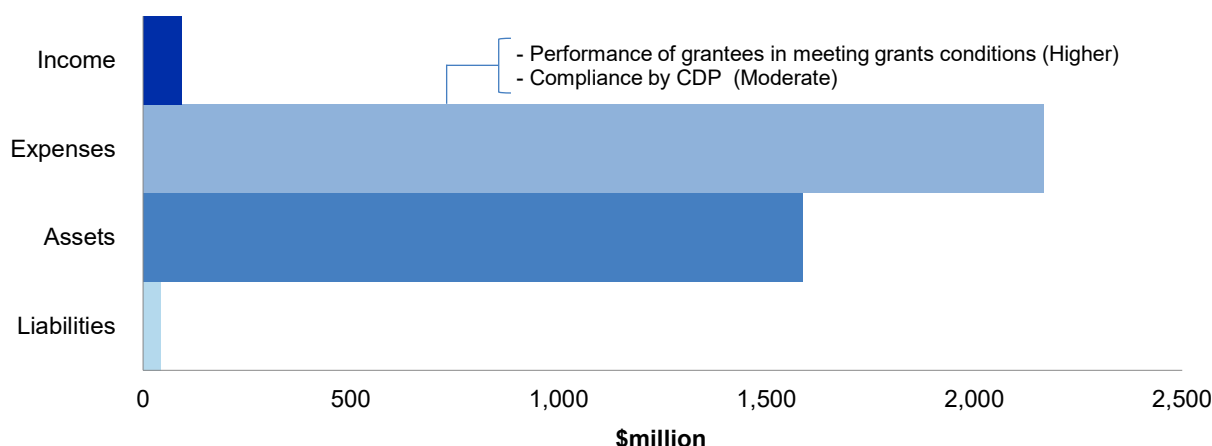
3.20.2 Figure 3.20.1 and Figure 3.20.2 below show the 2022–23 departmental and administered financial statements items reported by NIAA and the key areas of financial statements risk.

Figure 3.20.1: Key departmental financial statements items and areas of financial statements risk



Source: ANAO analysis and NIAA's budget as reported in the 2022–23 Portfolio Budget Statements.

Figure 3.20.2: Key administered financial statements items and areas of financial statements risk



Source: ANAO analysis and NIAA's budget as reported in the 2022–23 Portfolio Budget Statements.

3.20.3 The ANAO's audit approach identifies key areas of risk that have the potential to impact on NIAA's financial statements. The ANAO's risk assessment process considers the nature of the financial statements items and an understanding of NIAA's environment and governance arrangements, including its financial reporting regime and system of internal control.

3.20.4 In light of the key areas of risk and the ANAO's understanding of the operations of NIAA, the ANAO has assessed the overall risk of material misstatement in the 2022–23 financial statements audit as moderate.

Key financial statements items

3.20.5 Annual appropriation funding of \$398.6 million (departmental) and \$1,724.7 million (administered) was provided to NIAA in 2022–23 to support the achievement of the entity's outcomes.¹²⁸ NIAA was also budgeted to receive special appropriation funding of \$75.4 million.¹²⁹

3.20.6 Table 3.20.1 and Table 3.20.2 below provide a summary of the key 2022–23 departmental and administered estimated financial statements items.

Table 3.20.1: Key expenses and total own-sourced income

Expenses and own-source income	Departmental budget (\$m) 2022–23	Administered budget (\$m) 2022–23
Total expenses	417.6	2,166.2
Employee benefits	176.7	0.2
Suppliers	209.4	50.9
Depreciation and amortisation	30.0	0.2

128 *Supply Act (No. 1) 2022–2023; Supply Act (No. 2) 2022–2023; Supply Act (No. 3) 2022–2023; Supply Act (No. 4) 2022–2023; and Appropriation Act (No. 1) 2022–2023.*

129 Part 1: Budget Estimate 2022–23, Special Appropriations Table, *Agency Resourcing, Budget Paper No. 4, 2022–2023.*

Expenses and own-source income	Departmental budget (\$m) 2022–23	Administered budget (\$m) 2022–23
Grants	–	1,697.1
Payments associated with land councils	–	229.2
Payments to Indigenous Land and Sea Corporation	–	57.1
Personal Benefit Payments	–	118.3
Other	1.5	13.2
Total own-source income	13.7	91.8
Sale of goods and rendering of services	11.1	–
Interest revenue	–	22.0
Indigenous Land and Sea Corporation funding special account	–	57.1
Other	2.6	12.7
Net (cost of) services	(403.9)	(2,074.4)

Source: NIAA's 2022–23 budget as reported in the 2022–23 Portfolio Budget Statements.

Table 3.20.2: Key assets and liabilities

Assets and liabilities	Departmental budget (\$m) 2022–23	Administered budget (\$m) 2022–23
Total assets	272.5	1,585.7
Cash and cash equivalents	–	51.1
Trade and other receivables	88.7	18.6
Property, plant and equipment	169.2	11.0
Intangibles	10.4	19.9
Term deposits	–	1,485.0
Other	4.2	0.1
Total liabilities	166.5	41.5
Suppliers	9.8	3.2
Employee provisions	51.2	–
Lease liabilities	96.2	0.3
Grants payable	–	29.6
Other	9.3	8.4
Net assets	106.0	1,544.2

Note: NIAA's estimated average staffing level for 2022–23 is 1,317.

Source: NIAA's 2022–23 budget as reported in the 2022–23 Portfolio Budget Statements.

Key areas of financial statements risk

3.20.7 The ANAO undertakes appropriate audit procedures on all material items and focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. The ANAO also assesses the information technology (IT) general and application controls for key systems that support the preparation of NIAA's financial statements. Areas highlighted for specific audit coverage in 2022–23 are provided below in Table 3.20.3.

Table 3.20.3: Key areas of financial statements risk

Relevant financial statements line item	Key area of risk	Audit risk rating	Factors contributing to risk assessment
<i>Departmental</i> property, plant and equipment \$169.2 million	Valuation of property, plant and equipment	Moderate	<ul style="list-style-type: none"> property, plant and equipment is held in various geographic locations across Australia is required to be valued accordance with the Financial Reporting Rule.
<i>Departmental</i> shared services expenses (a component of suppliers \$209.4 million) employee benefits \$176.7 million	Reliance on third parties for transaction processing	Moderate	<ul style="list-style-type: none"> reliance on third parties for services including payroll and financial transaction processing for which NIAA is accountable.
<i>Administered</i> grants management (a component of grants expenses \$1,697.1 million)	Performance of grantees in meeting grants conditions KAM	Higher	<ul style="list-style-type: none"> significant number and value of grants paid; complexity of grants management across remote areas in Australia; and payments rely on several IT systems operated by different Australian Government entities.
<i>Administered</i> compliance program for Community Development Program (CDP) providers (a component of grants expenses \$1,697.1 million)	Compliance by CDP providers KAM	Moderate	<ul style="list-style-type: none"> reliance on data submitted by providers; including varying controls for systems operated by other departments.

Source: ANAO 2022–23 risk assessment, and NIAA's budgeted financial statements for the year ended 30 June 2023.

Audit results

3.20.8 The ANAO has completed its 2022–23 interim audit coverage, including an assessment of IT general controls and controls relating to cash at bank, accounts payable, credit card purchases and reconciliations between the NIAA financial system and systems operated by third party service providers.

3.20.9 Audit procedures, including IT application controls, relating to grants, CDP compliance, non-financial assets and payroll will be undertaken as part of the planned 2022–23 final audit.

3.20.10 To date, our audit coverage has not identified any new significant or moderate audit findings.¹³⁰

Conclusion

3.20.11 Based on our audit coverage to date, key elements of internal control were operating effectively to provide reasonable assurance that NIAA will be able to prepare financial statements that are free from material misstatement. The effective operation of these internal controls for the full financial year will be assessed during the 2022–23 final audit.

Comments on non-material entities that report to the Minister for Indigenous Australians relating to the 2021–22 financial statements audit

Anindilyakwa Land Council

3.20.12 The Anindilyakwa Land Council (ALC) was formed by the *Aboriginal Land Rights (Northern Territory) Act 1976* (ALRA). Under subsection 23(1) of the ALRA, ALC undertakes the following activities:

- Management of the land to protect traditional owners' interests.
- Protection of sacred sites.
- Consultation regarding proposals relating to lands and seas in the Groote Archipelago.
- Provision of assistance to traditional owners to engage in commercial activities and economic development.
- Supervision and administration of land trusts.
- Control of visits by all non-indigenous people through monitoring and permits.
- Protection and preservation of culture, including intellectual property, copyright and reproduction of cultural products to safeguard against illegal or improper use of research, digital images, designs, stories, bio-cultural information, artefacts and art.

3.20.13 The 2021–22 financial statements audit was delayed due to increased testing required to address the increased risk rating resulting from issues identified during the audit. These included prior period errors, consideration evaluation of related parties and related entities.

Audit results

3.20.14 The following table summarises the status of audit findings as at the end of the 2021–22 final audit as reported by the ANAO.

130 The 2021–20 audit also did not identify any significant or moderate audit findings.

Table 3.20.4: Status of audit findings raised by the ANAO

Category	Closing position (2020–21)	New findings (2021–22)	Findings resolved (2021–22)	Closing position (2021–22)
B	–	1 ^a	–	1
Total	–	1	–	1

Note a: The minor audit finding relating to financial statements preparation was identified during the 2019–20 audit. This audit finding has been reclassified to a moderate audit finding.

New moderate audit finding

Financial statements preparation

3.20.15 Part 2-2 Division 4 Section 41.2 of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) requires the accountable authority of a Commonwealth entity to ensure that the accounts and records are kept in a way that: allows those financial statements to be conveniently and properly audited.

3.20.16 In 2019–20, the ANAO identified a number of areas where ALC had limited quality assurance checks performed by management to ensure that the draft versions of the financial statements were of a high standard. The ANAO recommended in 2019–20 that ALC develop a detailed financial statements preparation process that included appropriate working papers, position papers and quality assurance processes.

3.20.17 In 2020–21, the ANAO performed a follow-up on the recommendations made in 2019–20 and noted that there had been no significant improvement to ALC's financial statements preparation process.

3.20.18 As part of the 2021–22 final audit, the ANAO continued to identify issues in ALC's financial statements preparation process. The ANAO reclassified the minor audit finding originally raised in 2019–20 to moderate.

Emphasis of matter

3.20.19 An Emphasis of Matter paragraph has been included in the 2021–22 auditor's report to draw users' attention to two prior period errors in relation to Key Management Personnel Remuneration disclosures and related party transactions.

Tiwi Land Council

3.20.20 The Tiwi Land Council (TLC) was established on 18 August 1978, following representation by the Tiwi people to the Australian Government for recognition of their distinct geographic and cultural identity. TLC was instituted by the Minister for Aboriginal Affairs, the Honourable Ian Viner, at a special gathering on Bathurst Island on 7 September 1978. TLC is the only body with authority and capacity to direct and administer the Tiwi Aboriginal Land Trust established under the *Aboriginal Land Rights (Northern Territory) Act 1976*.

3.20.21 The 2021–22 financial statements audit was delayed due to increased testing required to address the increased risk rating resulting from issues identified during the audit. These included the removal of the CEO and Office Manager, prior period errors, evaluation of related parties and related entities.

Audit results

3.20.22 The following table summarises the status of audit findings as at the end of the 2021–22 final audit as reported by the ANAO.

Table 3.20.5: Status of audit findings raised by the ANAO

Category	Closing position (2020–21)	New findings (2021–22)	Findings resolved (2021–22)	Closing position (2021–22)
L1	–	1	–	1
Total	–	1	–	1

New significant legislative breach

Risk management activities

3.20.23 Part 2-2 Division 2 Section 16 of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) requires the accountable authority of a Commonwealth entity to establish and maintain an appropriate system of risk oversight and management. This would normally include the development of a risk management policy and framework, including a risk plan and a risk register and monitoring activities over the implementation of the control activities identified in the risk register.

3.20.24 During the final audit, the ANAO noted that TLC did not have in place a formal risk management policy nor a formal risk management framework. It was also noted that TLC updated the design of its Risk Register in 2021–22 but not the substantive contents which were last updated in 2020. There was no evidence of monitoring activities over the implementation of the control activities identified in the risk register. There was also no documented evidence to support that an appropriate system of risk oversight and management is in place for TLC.

3.20.25 The ANAO recommended that TLC develop a formal risk management policy and framework to ensure compliance with the PGPA Act, implement a process whereby the risk register is updated regularly to ensure that identified risks are appropriately managed and develop reporting tools to evidence ongoing monitoring activities over the implementation of the control activities identified in the risk register.

Emphasis of matter

3.20.26 An Emphasis of Matter paragraph has been included in the 2021–22 auditor's report to draw users' attention to the Key Management Personnel Remuneration of the financial statements which describes prior period errors in relation to Key Management Personnel Remuneration disclosures and overpayments made to the Key Management Personnel for the financial years ended 30 June 2013 to 30 June 2021 inclusive.

3.21 Department of Social Services

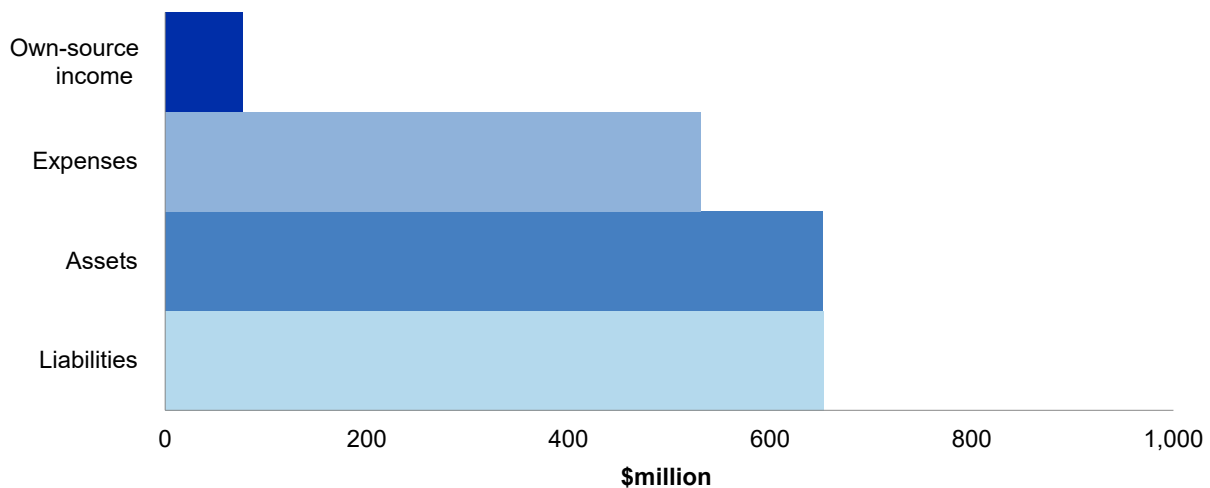
Overview

3.21.1 The Department of Social Services (DSS) is responsible for social security, families and communities, disability and carers, and housing. DSS works in partnership with other government and non-government organisations on a range of policies, programs and services focused on improving the wellbeing of people and families in Australia.

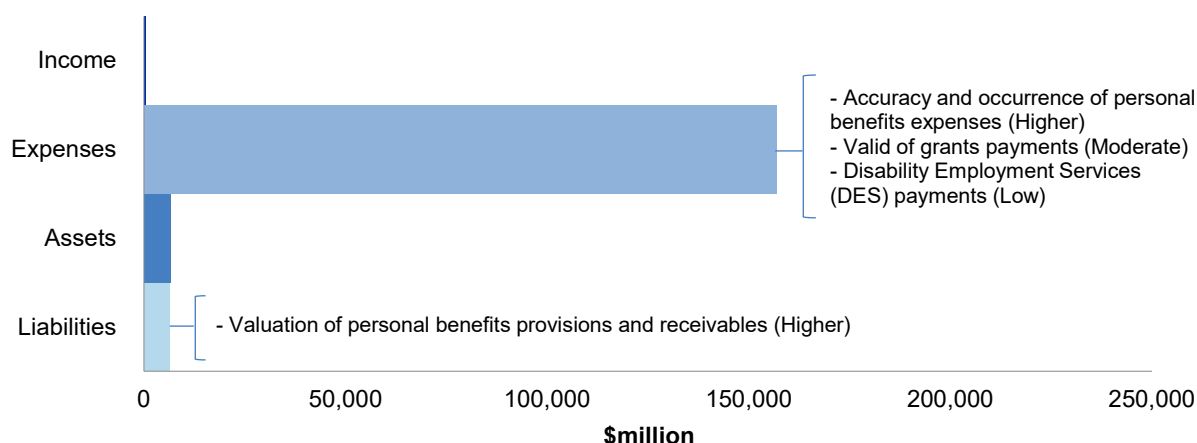
3.21.2 Services Australia processes the social services payments that are within DSS' responsibility. DSS processes grants payments itself and provide a grants administration facility to other Commonwealth entities.

3.21.3 Figure 3.21.1 and Figure 3.21.2 below show the 2022–23 departmental and administered financial statements items reported by DSS and the key areas of financial statements risk.

Figure 3.21.1: Key departmental financial statements items and areas of financial statements risk



Source: ANAO analysis and DSS' budget as reported in the 2022–23 Portfolio Budget Statements.

Figure 3.21.2: Key administered financial statements items and areas of financial statements risk

Source: ANAO analysis and DSS' budget as reported in the 2022–23 Portfolio Budget Statements.

3.21.4 The ANAO's audit approach identifies key areas of risk that have the potential to impact on DSS's financial statements. The ANAO's risk assessment process considers the nature of the financial statements items and an understanding of DSS's environment and governance arrangements, including its financial reporting regime and system of internal control.

3.21.5 In light of the key areas of risk and the ANAO's understanding of the operations of DSS, the ANAO has assessed the overall risk of material misstatement in the 2022–23 financial statements audit as high. This assessment is a result of heightened public scrutiny and interest that both Services Australia and the Department of Social Services are currently under as a result of the Robo-Debt Royal Commission, particularly concerns around governance and oversight within the portfolio.

Key financial statements items

3.21.6 Annual appropriation funding¹³¹ of \$448.2 million (departmental) and \$25,567.6 million (administered) was provided to DSS in 2022–23 to support the achievement of the entity's outcomes.¹³² DSS was also budgeted to receive special appropriation funding of \$129.7 million.¹³³

3.21.7 Table 3.21.1 and Table 3.21.2 below provide a summary of the key 2022–23 departmental and administered estimated financial statements items.

131 Includes transfers of annual appropriations via determinations made under section 75 of the *Public Governance, Performance and Accountability Act 2013*.

132 *Supply Act (No. 1) 2022–2023*; *Supply Act (No. 3) 2022–2023*; and *Appropriation Act (No. 1) 2022–2023*.

133 Part 1: Budget Estimate 2022–23, Special Appropriations Table, *Agency Resourcing, Budget Paper No. 4, 2022–2023*.

Table 3.21.1: Key expenses and total own-sourced income

Expenses and own-source income	Departmental budget (\$m) 2022–23	Administered budget (\$m) 2022–23
Total expenses	530.8	156,773.0
Employee benefits	312.6	–
Suppliers	176.0	231.2
Depreciation and amortisation	33.7	–
Personal benefits	–	129,417.7
Grants	–	2,972.4
Subsidies	–	75.9
Payments to corporate entities	–	23,956.6
Other	8.5	119.2
Total own-source income	77.1	446.0
Revenue from contracts with customers	19.9	–
Recoveries and rendering of services	–	386.5
Other	57.2	59.5
Net (cost of) services	(453.7)	(156,327.0)

Source: DSS' 2022–23 budget as reported in the 2022–23 Portfolio Budget Statements.

Table 3.21.2: Key assets and liabilities

Assets and liabilities	Departmental budget (\$m) 2022–23	Administered budget (\$m) 2022–23
Total assets	651.5	6,541.3
Cash and cash equivalents	8.0	21.4
Trade and other receivables	95.9	5,306.5
Land and buildings	545.1	–
Property, plant and equipment	1.3	–
Investments	–	1,213.4
Other	1.2	–
Total liabilities	652.5	6,235.3
Employee provisions	94.2	–
Suppliers	15.2	44.1
Personal benefits payable	–	2,322.5
Personal benefits provision	–	3,764.3
Subsidies	–	78.1

Assets and liabilities	Departmental budget (\$m) 2022–23	Administered budget (\$m) 2022–23
Leases	531.8	–
Grants	–	20.0
Other	11.3	6.3
Net assets/(liabilities)	(1.0)	306.0

Note: DSS' estimated average staffing level for 2022–23 is 2,428.

Source: DSS' 2022–23 budget as reported in the 2022–23 Portfolio Budget Statements.

Key areas of financial statements risk

3.21.8 The ANAO undertakes appropriate audit procedures on all material items and focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. The ANAO also assesses the information technology (IT) general and application controls for key systems that support the preparation of DSS' financial statements. Areas highlighted for specific audit coverage in 2022–23 are provided below in Table 3.21.3.

Table 3.21.3: Key areas of financial statements risk

Relevant financial statements line item	Key area of risk	Audit risk rating	Factors contributing to risk assessment
<i>Administered</i> personal benefits \$129,417.7 million	Accuracy and occurrence of personal benefit payments KAM	Higher	<ul style="list-style-type: none"> reliance on self-disclosure of personal circumstances by a large number of diverse recipients; and reliance on Services Australia's complex IT systems for the processing of a high volume of payments across numerous personal benefit types with varying conditions for determining payment amount.
<i>Administered</i> personal benefits provision \$3,764.3 million personal benefits receivable (a component of trade and other receivables \$5,306.5 million)	Valuation of personal benefits provision and receivable KAM	Higher	<ul style="list-style-type: none"> complex estimation models which require significant judgements and a range of assumptions and factors, including new budget measures affecting benefit programs, timing of payments, personal circumstances of recipients and the wider economic environment; and the completeness and accuracy of the source data used by the actuary to develop the estimates.

Relevant financial statements line item	Key area of risk	Audit risk rating	Factors contributing to risk assessment
<i>Administered</i> grants \$2,972.4 million	Validity of grants payments KAM	Moderate	<ul style="list-style-type: none"> a large number of grants programs with differing legislative and policy requirements which make the management of grant processes complex and this has the potential to impact the validity of grant payments.
<i>Administered</i> grants \$2,972.4 million	Disability Employment Services (DES) payments	Low	<ul style="list-style-type: none"> the large volume of financial records relating to DES claims are processed through multiple supporting financial systems.

Source: ANAO 2022–23 risk assessment, and DSS' budgeted financial statements for the year ended 30 June 2023.

3.21.9 The ANAO also considers the results of recent performance audits in identifying risks and designing an approach for the financial statements audit.

3.21.10 Auditor-General Report No.15 2022–23 *Procurement of 1800RESPECT* was tabled during 2022–23 and the observations of this report were considered in designing audit procedures to address areas considered to pose a lower risk of material misstatement.

Audit results

3.21.11 The ANAO has completed its 2022–23 interim audit coverage, including an assessment of the controls relating to financial management, human resources information, grant management systems, and compliance and assurance processes relating to personal benefits and disability services. Audit procedures have also been completed for processes relating to: grants; cash; appropriations; special accounts; asset management; payroll processing; supplier expenses; and departmental revenue.

3.21.12 Audit procedures relating to the valuation of personal benefit provisions and receivables and additional testing over grants payments will be undertaken as part of the planned 2022–23 final audit.

3.21.13 To date, our audit coverage has not identified any new significant or moderate audit findings.

3.21.14 The following table summarises the status of audit findings as at the end of the 2022–23 interim audit as reported by the ANAO.

Table 3.21.4: Status of audit findings raised by the ANAO

Category	Closing position (2021–22 final)	New findings (2022–23 interim)	Resolved findings (2022–23 interim)	Closing position (2022–23 interim)
B	1	–	–	1
Total	1	–	–	1

Unresolved moderate audit finding

SAP terminations

3.21.15 During the 2020–21 audit, the ANAO identified multiple instances where user access had not been removed in a timely manner. The ANAO recommended that DSS implement processes to ensure user access is terminated on a timely basis and undertake a detailed review of all logs related to unauthorised access confirming that no inappropriate transactions or data has been accessed.

3.21.16 During 2021–22, another instance was identified by DSS in June 2022 where a user ID was accessed after the user's termination date. DSS' detective controls process did identify this termination as having potentially accessed the DSS ICT environment post-termination. However, the final investigation to determine the impact of this access was not completed before the record was closed.

3.21.17 DSS has provided a closure pack to the ANAO to demonstrate that adequate controls have been implemented to address this finding. The ANAO will review the information provided during the 2022–23 final audit.

Conclusion

3.21.18 At the completion of the interim audit, and except for the finding outlined above, the ANAO identified that key elements of internal control were operating effectively to provide reasonable assurance that DSS will be able to prepare financial statements that are free from material misstatement. The effective operation of these controls for the full financial year will be assessed in conjunction with additional audit testing during the 2022–23 final audit.

3.22 National Disability Insurance Agency

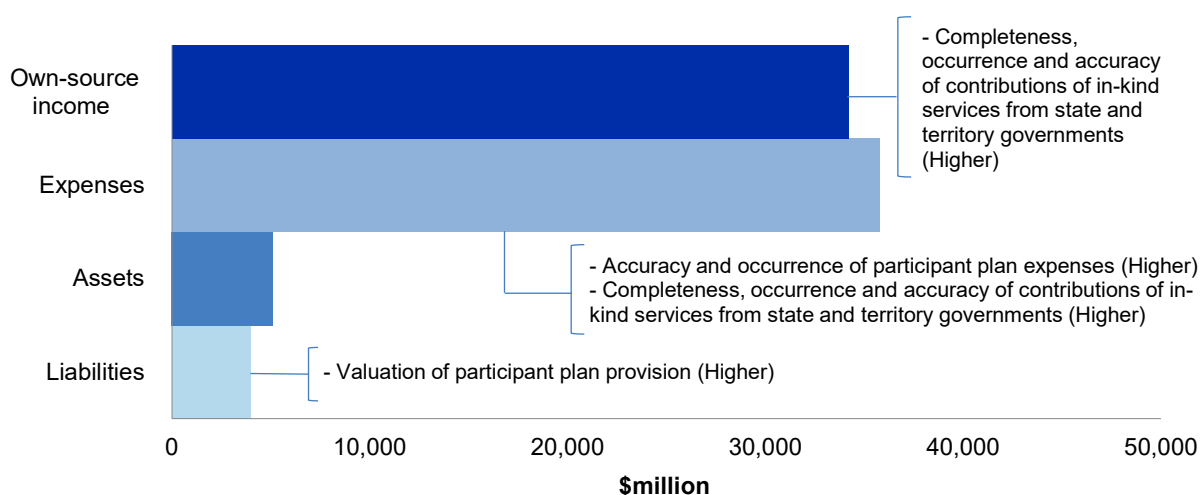
Overview

3.22.1 The National Disability Insurance Agency (the NDIA) was established under the *National Disability Insurance Scheme Act 2013*. The NDIA has responsibility for delivering the National Disability Insurance Scheme (the Scheme). The Scheme is designed to: provide individual control and choice in the delivery of reasonable and necessary care and support; improve the independence, social and economic participation of eligible people with disability, their families and carers; and provide associated referral services and activities.

3.22.2 The NDIA has established arrangements with Services Australia for facilitating the information technology platforms for provider and participant payments, supplier payments and payroll processing under a service agreement.

3.22.3 Figure 3.22.1 below shows the 2022–23 financial statements items reported by National Disability Insurance Agency and the key areas of financial statements risk.

Figure 3.22.1: Key departmental financial statements items and areas of financial statements risk



Source: ANAO analysis and the NDIA's audited financial statements for the year ended 30 June 2022

3.22.4 The ANAO's audit approach identifies key areas of risk that have the potential to impact on the NDIA's financial statements. The ANAO's risk assessment process considers the nature of the financial statements items and an understanding of the NDIA's environment and governance arrangements, including its financial reporting regime and system of internal control.

3.22.5 In light of the key areas of risk and the ANAO's understanding of the operations of the NDIA, the ANAO has assessed the overall risk of material misstatement in the 2022–23 financial statements audit as moderate.

Key financial statements items

3.22.6 Annual appropriation funding of \$1,445.4 million (departmental) was provided to the NDIA in 2022–23 to support the achievement of the entity's outcomes.¹³⁴

3.22.7 Table 3.22.1 and Table 3.22.2 below provide a summary of the key 2022–23 items from the 2022–23 budgeted financial statements.

Table 3.22.1: Key expenses and total own-sourced income

Expenses and own-source income	Departmental budget (\$m) 2022–23
Total expenses	35,752.0
Employee benefits	481.2
Supplier expenses	1,219.9
Depreciation and amortisation	71.4
Finance costs	2.9
Participant plan expenses	33,976.6
Total income	35,629.1
Sale of goods and rendering of services	32,968.6
Other income	1,572.3
Other gains	1,088.2
Net (cost of) services	(122.9)

Source: The NDIA's 2022–23 budget as reported in the Portfolio Budget Statements 2022–23.

Table 3.22.2: Key assets and liabilities

Assets and liabilities	Departmental budget (\$m) 2022–23
Total assets	5,107.0
Cash and cash equivalents	1,146.9
Trade and other receivables	42.8
Other financial assets	3,657.8
Non-financial assets	259.5
Total liabilities	3,985.9
Suppliers	140.7
Other payables	635.6
Leases	163.3

134 Supply Act (No. 1) 2022–2023; Supply Act (No. 3) 2022–2023; and Appropriation Act (No. 1) 2022–2023.

Assets and liabilities	Departmental budget (\$m) 2022–23
Employee provisions	98.3
Participant provisions	2,940.1
Other provisions	7.9
Net assets	1,121.1

Note: The NDIA's estimated average staffing level for 2022–23 is 4,754.

Source: The NDIA's 2022–23 budget as reported in the Portfolio Budget Statements 2022–23.

Key areas of financial statements risk

3.22.8 The ANAO undertakes appropriate audit procedures on all material items and focusses audit effort on those areas that are assessed as having a higher risk of material misstatement. The ANAO also assesses the IT general and application controls for key systems that support the preparation of the NDIA's financial statements. Areas highlighted for specific audit coverage in 2022–23 are provided below in Table 3.22.3.

Table 3.22.3: Key areas of financial statements risk

Relevant financial statements line item	Key area of risk	Audit risk rating	Factors contributing to risk assessment
<i>Departmental</i> participant plan expenses \$33,976.6 million	Accuracy and occurrence of participant plan expenses KAM	Higher	<ul style="list-style-type: none"> complexity around the decisions as to the appropriate level of support and therefore the associated expenses, and high volume of transactions; and continued growth in participant numbers entering the National Disability Insurance Scheme.
<i>Departmental</i> participant provisions \$2,940.1 million	Valuation of participant plan provisions KAM	Higher	<ul style="list-style-type: none"> significant judgement and assumptions required in the actual estimate of outstanding claims at year-end including the timing and amount of cashflow due to the complexity of estimating payment patterns.

Relevant financial statements line item	Key area of risk	Audit risk rating	Factors contributing to risk assessment
<i>Departmental</i> contributions in-kind from state and territory governments revenue \$1,088.2 million contributions in-kind from state and territory governments expense (a component of participant plan expenses \$33,976.6 million)	Completeness, occurrence and accuracy of contributions of in-kind services from state and territory governments KAM	Higher	<ul style="list-style-type: none"> reliance on third party data from state and territory governments; and in-kind revenue and expenses may be misstated if services provided directly to eligible participants by states and territories are not reported to the NDIA in line with bilateral agreements.
<i>Departmental</i> participant plan expenses \$34.0 billion	Implementation of the new CRM system (PACE) associated with participant and provider payments	Moderate	<ul style="list-style-type: none"> this change to the NDIA's IT architecture is complex; and PACE is expected to enable business process and policy changes in other internal processes which may lead to changes in existing controls and procedures.

Source: ANAO 2022–23 risk assessment, and the NDIA's budgeted financial statements for the year ended 30 June 2023.

Audit results

3.22.9 The ANAO has completed its 2022–23 interim audit coverage, including an assessment of the controls relating to: financial management, human resources information, provider and participant payment systems; compliance and business assurance processes relating to scheme access; and plan approval and claims processing. Audit procedures have also been completed for the processes relating to provider and participant claims, cash, supplier expenses, leases and revenue.

3.22.10 Audit procedures relating to valuation of provider and participant provisions will be undertaken as part of the planned 2022–23 final audit.

3.22.11 The following table summarises the status of audit findings as at the end of the 2022–23 interim audit as reported by the ANAO.

Table 3.22.4: Status of audit findings raised by the ANAO

Category	Closing position (2021–22 final)	New findings (2022–23 interim)	Resolved findings (2022–23 interim)	Closing position (2022–23 interim)
B	1	2	–	3
Total	1	2	–	3

New moderate audit findings

Privileged User Access

3.22.12 The NDIA rolled out a new Customer Relationship Management system during 2022–23. The new system is controlled and managed by the NDIA and works with the existing system managed by Services Australia for payment processing. The ANAO noted that the NDIA has not implemented a formal process for reviewing privileged user activity for the new system. At present, the NDIA relies on system generated real-time alerts. The responsible officer investigates the alerts to determine if there is any unauthorised or suspicious activity. However, the results and outcomes of these investigations have not been documented. The NDIA was unable to demonstrate that the current alert set up meets the requirements of the business risks.

Change Management

3.22.13 As part of the roll out of the new Customer Relationship Management system, the ANAO noted that the project team responsible for transferring the code changes to the live environment could make changes to the code prior to deployment. Whilst this arrangement retains the flexibility to resolve any software related conflicts during the transfer, there is a risk that unauthorised and/or inappropriate changes could be introduced to the live system. The NDIA project team was unable provide a list of all changes that were migrated into the live system.

Unresolved moderate audit finding

Timeliness of IT User Terminations

3.22.14 During the IT general controls testing undertaken in 2020–21 audit, the ANAO identified a number of IT user accounts that remained active after the user's departure date including users who had accessed the system post the termination date. The relevant reports relating the terminated user activity is provided to the NDIA-Cybersecurity team by Services Australia. During 2022–23, the ANAO tested the remediation work conducted by the NDIA-Cybersecurity team. The testing revealed that the NDIA is not investigating exceptions identified by Services Australia. The NDIA indicated that the process has now changed to include IT users in Services Australia as well as NDIA managed systems. The new process is to investigate the activity for all users. This will be further reviewed during the final phase of the audit.

Conclusion

3.22.15 At the completion of the interim audit, and except for the finding outlined above, the ANAO identified that key elements of internal control were operating effectively to provide reasonable assurance that the NDIA will be able to prepare financial statements that are free from material misstatement. The effective operation of these controls for the full financial year will be assessed in conjunction with additional audit testing during the 2022–23 final audit.

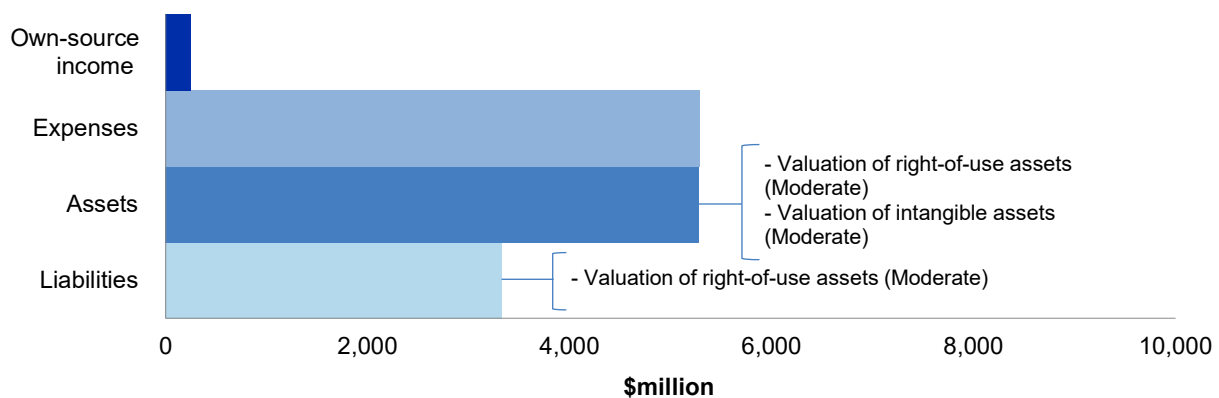
3.23 Services Australia

Overview

3.23.1 Services Australia has responsibility for delivering a range of payments and services to support individuals, families and communities, as well as providers and businesses. These include income support payments and services, aged care payments, Medicare payments and services, and child support services.

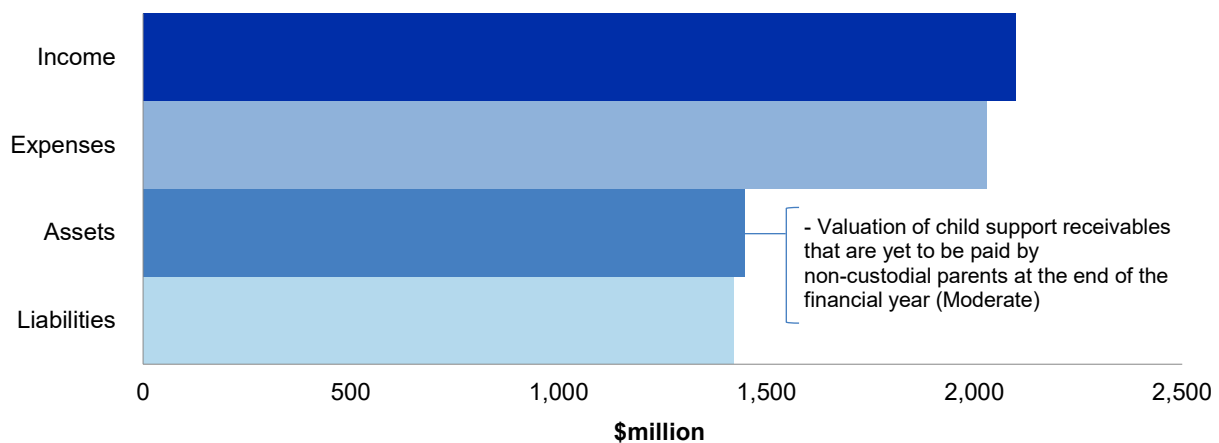
3.23.2 Figure 3.23.1 and Figure 3.23.2 below show the 2022–23 departmental and administered financial statements items reported by Services Australia and the key areas of financial statements risk.

Figure 3.23.1: Key departmental financial statements items and areas of financial statements risk



Source: ANAO analysis and Services Australia's budget as reported in the 2022–23 Portfolio Budget Statements.

Figure 3.23.2: Key administered financial statements items and areas of financial statements risk



Source: ANAO analysis and Services Australia's budget as reported in the 2022–23 Portfolio Budget Statements.

3.23.3 The ANAO's audit approach identifies key areas of risk that have the potential to impact on Services Australia's financial statements. The ANAO's risk assessment process considers the nature

of the financial statements items and an understanding of Services Australia's environment and governance arrangements, including its financial reporting regime and system of internal control.

3.23.4 In light of the key areas of risk and the ANAO's understanding of the operations of Services Australia, the ANAO has assessed the overall risk of material misstatement in the 2022–23 financial statements audit as high. This assessment is a result of heightened public scrutiny and interest that both Services Australia and the Department of Social Services are currently under as a result of the Robo-Debt Royal Commission, particularly concerns around governance and oversight within the portfolio.

Key financial statements items

3.23.5 Annual appropriation funding of \$5,307.4 million (departmental) and \$1.4 million (administered) was provided to Services Australia in 2022–23 to support the achievement of the entity's outcomes.¹³⁵ Services Australia was also budgeted to receive special appropriation funding of \$0.6 million.¹³⁶

3.23.6 Table 3.23.1 and Table 3.23.2 below provide a summary of the key 2022–23 departmental and administered estimated financial statements items.

Table 3.23.1: Key expenses and total own-sourced income

Expenses and own-source income	Departmental budget (\$m) 2022–23	Administered budget (\$m) 2022–23
Total expenses	5,290.2	2,029.5
Employee benefits	3,122.5	–
Suppliers	1,388.1	–
Depreciation and amortisation	762.2	–
Finance costs	14.1	–
Child support maintenance	–	1,942.7
Write-down and impairment of assets	–	86.8
Other	3.3	–
Total own-source income	252.1	2,098.4
Rendering of services	238.6	–
Rental Income	11.4	–
Child support maintenance revenue	–	2,016.7
Resources received free of charge	2.1	–
Other	–	81.7
Net (cost of)/contribution by services	(5,038.1)	68.9

135 *Supply Act (No. 1) 2022–2023; Supply Act (No. 2) 2022–2023; Supply Act (No. 3) 2022–2023; Supply Act (No. 4) 2022–2023; Appropriation Act (No. 1) 2022–2023; and Appropriation Act (No. 2) 2022–2023.*

136 Part 1: Budget Estimate 2022–23, Special Appropriations Table, *Agency Resourcing, Budget Paper No. 4, 2022–2023.*

Source: Services Australia's 2022–23 budget as reported in the 2022–23 Portfolio Budget Statements.

Table 3.23.2: Key assets and liabilities

Assets and liabilities	Departmental budget (\$m) 2022–23	Administered budget (\$m) 2022–23
Total assets	5,281.5	1,447.9
Cash	18.2	246.1
Trade and other receivables	1,255.9	14.9
Land and buildings	2,408.4	–
Property and equipment	458.8	–
Software	996.3	–
Other non-financial assets	143.9	–
Child support receivables	–	1,186.9
Total liabilities	3,327.6	1,421.4
Suppliers	195.0	–
Leases	2,190.3	–
Employee payables and provisions	878.5	–
Other payables and provisions	63.8	–
Child support and other payables	–	37.8
Recovery of compensation	–	173.8
Child support payments received in advance	–	29.0
Child support provisions	–	1,180.8
Net assets	1,953.9	26.5

Note: Services Australia's estimated average staffing level for 2022–23 is 28,564.

Source: Services Australia's 2022–23 budget as reported in the 2022–23 Portfolio Budget Statements.

Key areas of financial statements risk

3.23.7 The ANAO undertakes appropriate audit procedures on all material items and focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. The ANAO also assesses the information technology (IT) general and application controls for key systems that support the preparation of Services Australia's financial statements. Services Australia has a highly complex IT environment made up of numerous systems hosted across different IT platforms. Areas highlighted for specific audit coverage in 2022–23 are provided below in Table 3.23.3.

Table 3.23.3: Key areas of financial statements risk

Relevant financial statements line item	Key area of risk	Audit risk rating	Factors contributing to risk assessment
<i>Departmental</i> software \$996.3 million	Valuation of intangible assets KAM	Moderate	<ul style="list-style-type: none"> significant judgements involved in considering the indicators of impairment to estimate the value of intangible assets; and judgements involved in estimating the capitalisation of the staff and other costs attributed to developing the software applications.
<i>Departmental</i> right-of-use assets (a component of land and buildings \$2,408.4 million) leases \$2,190.3 million	Valuation of right-of-use assets KAM	Moderate	<ul style="list-style-type: none"> judgements associated with right-of-use valuations, particularly the treatment of lease options as well as the assurance processes for identifying and recognising changes in individual lease contracts, particularly modifications, new or terminated leases.
<i>Administered</i> child support receivables \$1,186.9 million	Valuation of child support receivables that are yet to be paid by non-custodial parents at the end of the financial year KAM	Moderate	<ul style="list-style-type: none"> significant judgements and assumptions around the collection rates of child support obligations are applied in determining the valuation of child support receivables and require the involvement of an actuary. These judgements rely on the quality of the underlying data used in the estimation process; and a large volume of child support financial transactions are processed using bespoke IT application under the complex <i>Child Support (Registration and Collection) Act 1988</i>. This complexity increases the judgements and estimates associated with the child support receivable valuation.

Source: ANAO 2022–23 risk assessment, and Services Australia’s budgeted financial statements for the year ended 30 June 2023.

Audit results

3.23.8 The ANAO has completed its 2022–23 interim audit coverage, including an assessment of the controls relating to areas of audit focus and IT controls over security and change management of financial management and human resource management systems.

3.23.9 Audit procedures relating to: controls over social services and health related payments made by Services Australia on behalf of other Australian Government entities, including associated compliance and assurance activities, will be undertaken as part of the planned 2022–23 final audit. In addition, the ANAO's final audit coverage will include valuation of child support debts, employee provisions and non-financial assets, particularly intangibles.

3.23.10 The following table summarises the status of audit findings as at the end of the 2022–23 interim audit as reported by the ANAO.

Table 3.23.4: Status of audit findings raised by the ANAO

Category	Closing position (2021–22 final)	New findings (2022–23 interim)	Resolved findings (2022–23 interim)	Closing position (2022–23 interim)
B	–	2	–	2
Total	–	2	–	2

New moderate audit findings

New Residential Aged Care System Access Management

3.23.11 In August 2022, Services Australia implemented a new residential aged care system, which replaced the previous payments system, in advance of transitioning into the new Aged Care funding reform from 1 October 2022. Maintaining and supporting IT systems requires some user accounts to have extensive access rights (privileged access). Privileged user accounts can be used to circumvent security controls to make direct changes, either to system settings or systems data, or to access files and accounts used by others.

3.23.12 During the 2022–23 audit, the ANAO identified that there were weaknesses in the design and operating effectiveness of controls supporting privileged and other user access. More broadly, the ANAO has observed a break-down in Services Australia's re-established security governance control framework, particularly the lack of formal system accreditation or other supporting system security risk assessments that would identify and allow system and project owners to formally analyse, understand and mitigate and/or accept key security governance risks prior to the implementation of the new system.

3.23.13 The ANAO recommended that Services Australia strengthen privileged user access and logging and monitoring processes.

New Residential Aged Care System Change Management

3.23.14 In August 2022, Services Australia implemented a new residential aged care system. IT change management provides a disciplined approach to making changes to the IT environment. It includes controls to prevent unauthorised changes being made and reduce the likelihood that normal business operations are interrupted with the implementation of authorised changes.

3.23.15 During the 2022–23 audit, the ANAO identified that there were weaknesses in segregation of duties controls associated with key change management processes, with Services Australia developers having access to release and deploy changes directly into the system.

3.23.16 The ANAO recommended that Services Australia strengthen change management processes to address the identified control weakness.

Conclusion

3.23.17 At the completion of the interim audit, and except for the finding outlined above, the ANAO identified that key elements of internal control were operating effectively to provide reasonable assurance that Services Australia will be able to prepare financial statements that are free from material misstatement. The effective operation of these controls for the full financial year will be assessed in conjunction with additional audit testing during the 2022–23 final audit.

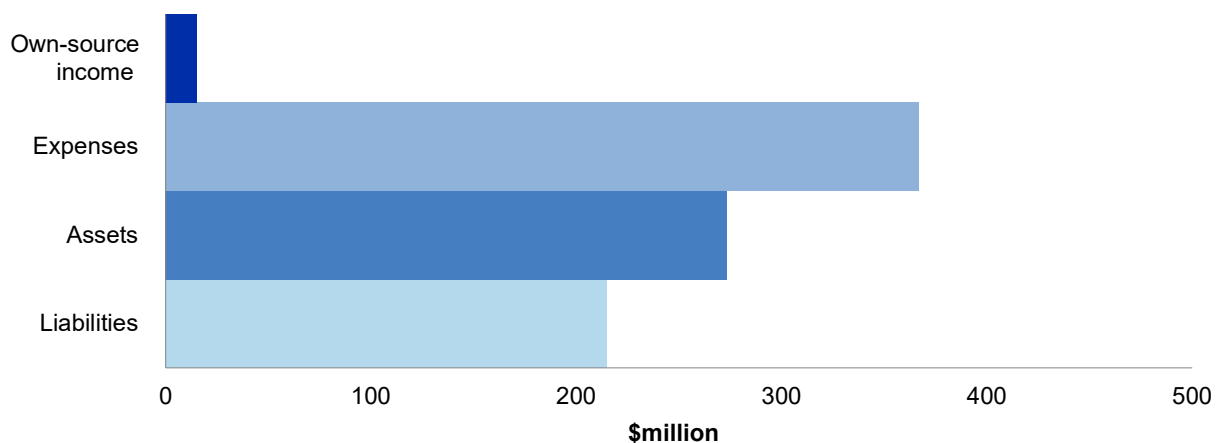
3.24 Department of the Treasury

Overview

3.24.1 The Department of the Treasury (the Treasury) is responsible for the development, delivery and implementation of economic analysis and authoritative policy advice on issues such as the economy, the budget, taxation, financial systems, foreign investment, retirement income, superannuation, small business and international economic policy. The Treasury also works with state and territory governments on key policy areas and manages federal financial relations.

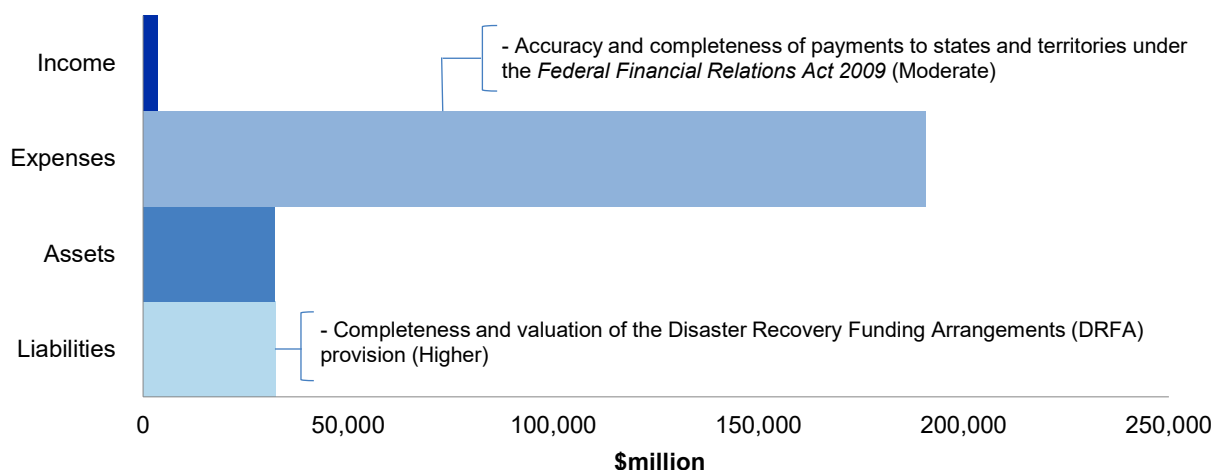
3.24.2 Figure 3.24.1 and Figure 3.24.2 below show the 2022–23 departmental and administered financial statements items reported by the Treasury and the key areas of financial statements risk.

Figure 3.24.1: Key departmental financial statements items and areas of financial statements risk



Source: ANAO analysis and Treasury's budget as reported in the 2022–23 Portfolio Budget Statements.

Figure 3.24.2: Key administered financial statements items and areas of financial statements risk



Source: ANAO analysis and Treasury's budget as reported in the 2022–23 Portfolio Budget Statements.

3.24.3 The ANAO's audit approach identifies key areas of risk that have the potential to impact on Treasury's financial statements. The ANAO's risk assessment process considers the nature of the financial statements items and an understanding of Treasury's environment and governance arrangements, including its financial reporting regime and system of internal control.

3.24.4 In light of the key areas of risk and the ANAO's understanding of the operations of Treasury, the ANAO has assessed the overall risk of material misstatement in the 2022–23 financial statements audit as moderate.

Key financial statements items

3.24.5 Annual appropriation funding of \$351.7 million (departmental) and \$252.3 million (administered) was provided to Treasury in 2022–23 to support the achievement of the entity's outcomes.¹³⁷ Treasury was also budgeted to receive special appropriation funding of \$119,574.0 million.¹³⁸

3.24.6 Table 3.24.1 and Table 3.24.2 below provide a summary of the key 2022–23 departmental and administered estimated financial statements items.

Table 3.24.1: Key expenses and total own-sourced income

Expenses and own-source income	Departmental budget (\$m) 2022–23	Administered budget (\$m) 2022–23
Total expenses	366.7	190,640.5
Employee benefits	223.0	–
Suppliers	127.4	8.1
Grants	0.6	140,933.1
Depreciation and amortisation	14.0	–
Payments to the Medicare Guarantee Fund	–	48,284.2
Finance costs	1.7	405.3
Other	–	1,009.8
Total own-source income	15.2	3,616.4
Sale of goods and services	10.3	655.2
Interest	–	341.7
COAG revenue from government entities	–	2,114.2
Other gains	–	315.7
Other	4.9	189.6
Net (cost of)/contribution to services	(351.5)	187,024.1

137 Supply Act (No. 1) 2022–2023; Supply Act (No. 2) 2022–2023; Supply Act (No. 3) 2022–2023; Supply Act (No. 4) 2022–2023; Appropriation Act (No. 1) 2022–2023; and Appropriation Act (No. 2) 2022–2023.

138 Part 1: Budget Estimate 2022–23, Special Appropriations Table, *Agency Resourcing, Budget Paper No. 4, 2022–2023*.

Source: Treasury's 2022–23 budget as reported in the 2022–23 Portfolio Budget Statements.

Table 3.24.2: Key assets and liabilities

Assets and liabilities	Departmental budget (\$m) 2022–23	Administered budget (\$m) 2022–23
Total assets	284.0	31,946.0
Cash and cash equivalents	1.6	1,061.0
Trade and other receivables	110.8	2,122.9
Land and buildings	143.8	–
Property, plant and equipment	13.7	–
Intangibles	9.5	–
Investments	–	28,762.1
Other	4.6	–
Total liabilities	233.7	32,323.0
Suppliers	11.7	–
Other payables	8.6	1,074.4
Leases	134.7	–
Employee provisions	72.9	–
Grants payable	–	88.9
Loans	–	8,823.7
Interest bearing liabilities	–	17,837.5
Other provisions	5.8	4,498.5
Net assets/(liabilities)	50.3	(377.0)

Note: Treasury's estimated average staffing level for 2022–23 is 1,438.

Source: Treasury's 2022–23 budget as reported in the 2022–23 Portfolio Budget Statements.

Key areas of financial statements risk

3.24.7 The ANAO undertakes appropriate audit procedures on all material items and focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. The ANAO also assesses the information technology (IT) general and application controls for key systems that support the preparation of Treasury's financial statements. Areas highlighted for specific audit coverage in 2022–23 are provided below in Table 3.24.3.

Table 3.24.3: Key areas of financial statements risk

Relevant financial statements line item	Key area of risk	Audit risk rating	Factors contributing to risk assessment
<i>Administered</i> other provisions \$4,498.5 million	Completeness and valuation of Disaster Recovery Funding Arrangements (DRFA) provision	Higher	<ul style="list-style-type: none"> reliance on information provided by state and territory governments to estimate the provision; and complexities in judgements relating to the timing of future payments and estimation of future costs to restore infrastructure to its condition at the time of the natural disaster.
<i>Administered</i> grants expense \$140,933.1 million	Accuracy and completeness of payments to states and territories under the <i>Federal Financial Relations Act 2009</i>	Moderate	<ul style="list-style-type: none"> the large range and value of grants paid with complex eligibility criteria; and reliance on other government entities to provide information to support payments and confirm the eligibility criteria have been met.

Source: ANAO 2022–23 risk assessment, and Treasury's budgeted financial statements for the year ended 30 June 2023.

Audit results

3.24.8 The ANAO has completed its 2022–23 interim audit coverage, including an assessment of the controls relating to grants payments, non-financial assets and supplier expenses. Audit coverage also includes an assessment of the IT general controls over the financial and human resource management information systems.

3.24.9 Audit procedures relating to valuation of provisions and additional testing over grants payments will be undertaken as part of the planned 2022–23 final audit.

3.24.10 The following table summarises the status of audit findings as at the end of the 2022–23 interim audit as reported by the ANAO.

Table 3.24.4: Status of audit findings raised by the ANAO

Category	Closing position (2021–22 final)	New findings (2022–23 interim)	Resolved findings (2022–23 interim)	Closing position (2022–23 interim)
B	1	–	–	1
Total	1	–	–	1

Unresolved moderate audit finding

Governance over the Federal Payments Management System

3.24.11 The Federal Payments Management System (FPMS) is a key system that streamlines the certification and collation of information for payments to states and territories. During the 2021–22 audit, the ANAO identified weaknesses in the Treasury's FPMS IT general control environment

relating to user access management policies and procedures, management of privileged user access and monitoring processes and controls.

3.24.12 The ANAO recommended that the Treasury revise its risk assessment of FPMS and refine processes and controls to mitigate identified risks. The Treasury completed its risk assessment and has commenced work to remediate identified deficiencies. The ANAO will review progress against the matters raised during the 2022–23 final audit.

Conclusion

3.24.13 At the completion of the interim audit, and except for the finding outlined above, the ANAO identified that key elements of internal control were operating effectively to provide reasonable assurance that Treasury will be able to prepare financial statements that are free from material misstatement. The effective operation of these controls for the full financial year will be assessed in conjunction with additional audit testing during the 2022–23 final audit.

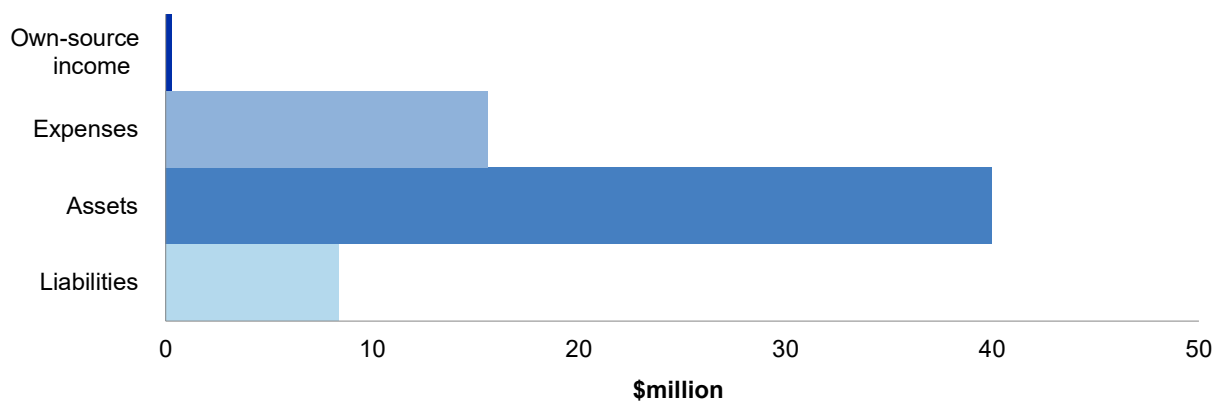
3.25 Australian Office of Financial Management

Overview

3.25.1 The Australian Office of Financial Management (AOFM) is responsible for the management of Australian Government debt and certain financial assets. It issues Treasury Bonds, Treasury Indexed Bonds and Treasury Notes, manages the government's cash balances and invests in high quality financial assets.

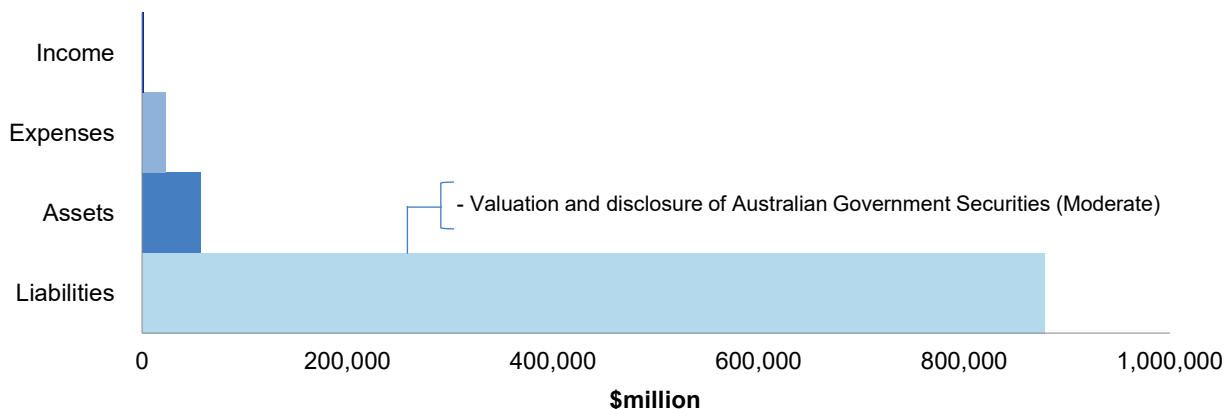
3.25.2 Figure 3.25.1 and Figure 3.25.2 below show the 2022–23 departmental and administered financial statements items reported by AOFM and the key areas of financial statements risk.

Figure 3.25.1: Key departmental financial statements items and areas of financial statements risk



Source: ANAO analysis and AOFM's budget as reported in the 2022–23 Portfolio Budget Statements.

Figure 3.25.2: Key administered financial statements items and areas of financial statements risk



Source: ANAO analysis and AOFM's budget as reported in the 2022–23 Portfolio Budget Statements.

3.25.3 The ANAO's audit approach identifies key areas of risk that have the potential to impact on AOFM's financial statements. The ANAO's risk assessment process considers the nature of the financial statements items and an understanding of AOFM's environment and governance arrangements, including its financial reporting regime and system of internal control.

3.25.4 In light of the key areas of risk and the ANAO's understanding of the operations of AOFM, the ANAO has assessed the overall risk of material misstatement in the 2022–23 financial statements audit as moderate.

Key financial statements items

3.25.5 Annual appropriation funding of \$7.1 million (departmental) was provided to AOFM in 2022–23 to support the achievement of the entity's outcomes.¹³⁹ AOFM was also budgeted to receive special appropriation funding of \$420,337.5 million.¹⁴⁰

3.25.6 Table 3.25.1 and Table 3.25.2 below provide a summary of the key 2022–23 departmental and administered estimated financial statements items.

Table 3.25.1: Key expenses and total own-sourced income

Expenses and own-source income	Departmental budget (\$m) 2022–23	Administered budget (\$m) 2022–23
Total expenses	16.1	22,423.3
Employee benefits	9.6	–
Suppliers	5.9	–
Depreciation and amortisation	0.5	–
Finance costs	0.1	22,395.9
Write-down and impairment of assets	–	2.4
Other	–	25.0
Total own-source income	0.3	1,143.2
Interest revenue	–	1,143.2
Other	0.3	–
Net (cost of) services	(15.8)	(21,280.1)

Source: AOFM's 2022–23 budget as reported in the 2022–23 Portfolio Budget Statements.

Table 3.25.2: Key assets and liabilities

Assets and liabilities	Departmental budget (\$m) 2022–23	Administered budget (\$m) 2022–23
Total assets	39.9	57,181.1
Cash and cash equivalents	0.1	54,946.2
Trade and other receivables	33.5	–
Loans to state and territory governments	–	1,251.6

139 *Supply Act (No. 1) 2022–2023*.

140 Part 1: Budget Estimate 2022–23, Special Appropriations Table, *Agency Resourcing, Budget Paper No. 4, 2022–2023*.

Assets and liabilities	Departmental budget (\$m) 2022–23	Administered budget (\$m) 2022–23
Structured finance securities	–	925.6
Accrued interest on cash management account	–	57.7
Non-financial assets	6.3	–
Total liabilities	8.2	877,947.7
Payables	1.4	0.1
Employee provisions	2.4	–
Leases	3.9	–
Australian Government securities	–	877,947.0
Other	0.5	0.6
Net assets/(liabilities)	31.7	(820,766.6)

Note: AOFM's estimated average staffing level for 2022–23 is 50.

Source: AOFM's 2022–23 budget as reported in the 2022–23 Portfolio Budget Statements.

Key areas of financial statements risk

3.25.7 The ANAO undertakes appropriate audit procedures on all material items and focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. The ANAO also assesses the information technology (IT) general and application controls for key systems that support the preparation of AOFM's financial statements. Areas highlighted for specific audit coverage in 2022–23 are provided below in Table 3.25.3.

Table 3.25.3: Key areas of financial statements risk

Relevant financial statements line item	Key area of risk	Audit risk rating	Factors contributing to risk assessment
<i>Administered</i> Australian Government Securities \$877,947.0 million	Valuation and disclosure of Australian Government Securities	Moderate	<ul style="list-style-type: none"> the fair value movement has a material impact on the financial statements due to the significant value of the liability and significant volume of instruments issued; fair value is subject to price changes in local and global money and capital markets; and complex financial statements disclosure requirements for financial liabilities measured at fair value through profit and loss.

Source: ANAO 2022–23 risk assessment, and AOFM's budgeted financial statements for the year ended 30 June 2023.

Audit results

3.25.8 The ANAO has completed its 2022–23 interim audit coverage, including an assessment of the controls relating to: cash and cash equivalents; supplier expenses; and issuance and management of Australian Government Securities.

3.25.9 Audit procedures relating to the valuation of Australian Government Securities will be undertaken as part of the planned 2022–23 final audit.

3.25.10 To date, our audit coverage of the above areas has not identified any new significant or moderate audit findings.¹⁴¹

Conclusion

3.25.11 Based on our audit coverage to date, key elements of internal control were operating effectively to provide reasonable assurance that AOFM will be able to prepare financial statements that are free from material misstatement. The effective operation of these internal controls for the full financial year will be assessed during the 2022–23 final audit.

141 The 2021–22 audit also did not identify any significant or moderate audit findings.

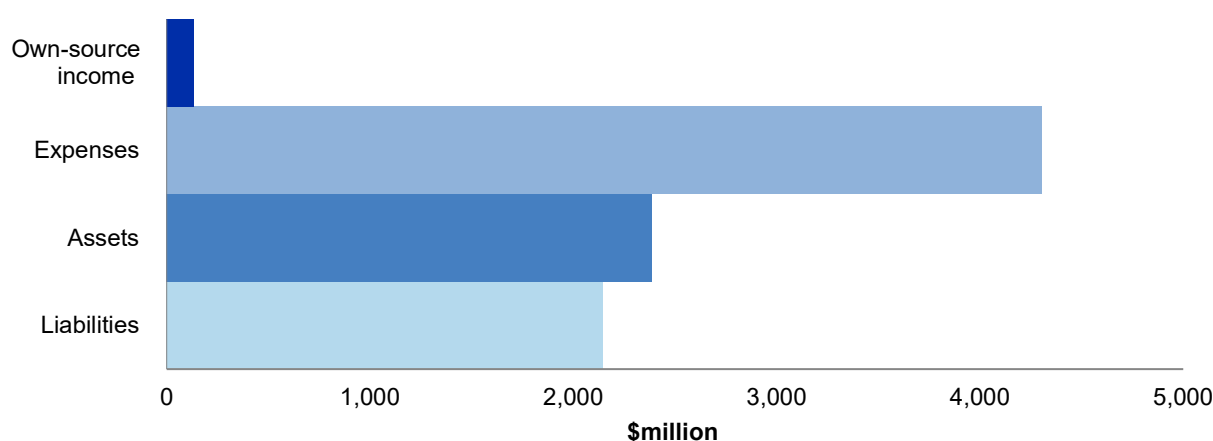
3.26 Australian Taxation Office

Overview

3.26.1 The Australian Taxation Office (the ATO) is the Australian Government's principal revenue collection entity and is part of the Treasury portfolio. The ATO's role is to administer Australia's tax system, significant aspects of Australia's superannuation system and business registry services, together with the provision of support to the Tax Practitioners Board and the Australian Charities and Not-for-profits Commission.

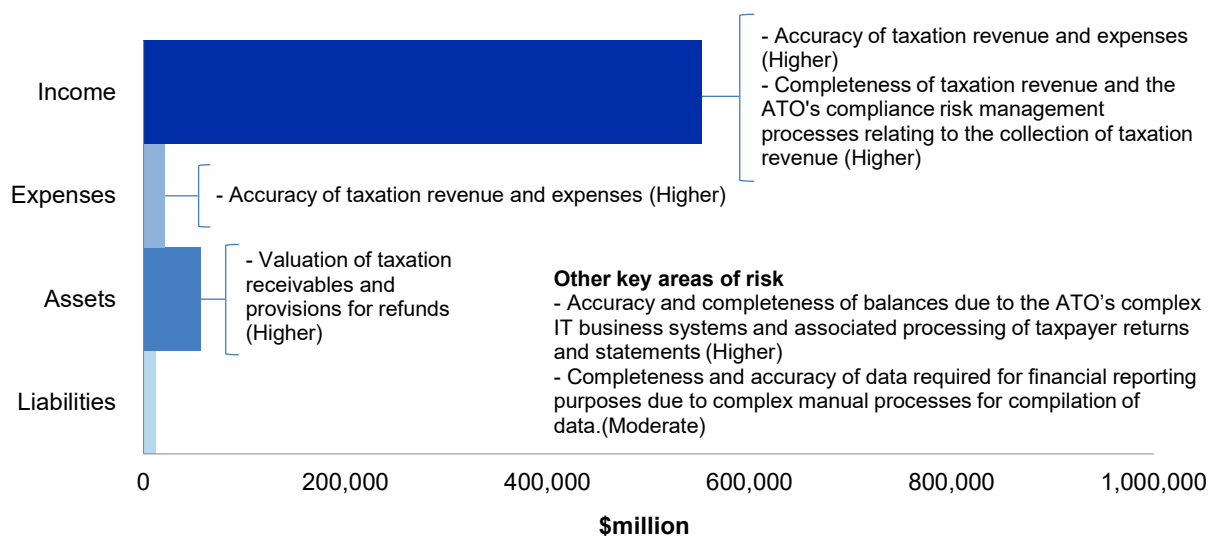
3.26.2 Figure 3.26.1 and Figure 3.26.2 below show the 2022–23 departmental and administered financial statements items reported by the ATO and the key areas of financial statements risk.

Figure 3.26.1: Key departmental financial statements items and areas of financial statements risk



Source: ANAO analysis and the ATO's revised budget as reported in the 2022–23 Portfolio Budget Statements.

Figure 3.26.2: Key administered financial statements items and areas of financial statements risk



Source: ANAO analysis and the ATO's revised budget as reported in the 2022–23 Portfolio Budget Statements.

3.26.3 The ANAO's audit approach identifies key areas of risk that have the potential to impact on the ATO's financial statements. The ANAO's risk assessment process considers the nature of the financial statements items and an understanding of the ATO's environment and governance arrangements, including its financial reporting regime and system of internal control.

3.26.4 In light of the key areas of risk and the ANAO's understanding of the operations of the ATO, the ANAO has assessed the overall risk of material misstatement in the 2022–23 financial statements audit as high.

Key financial statements items

3.26.5 Annual appropriation funding of \$4,114.6 million (departmental) and \$13.1 million (administered) was provided to the ATO in 2022–23 to support the achievement of the entity's outcomes.¹⁴² The ATO was also budgeted to receive special appropriation funding of \$13,649.6 million.¹⁴³

3.26.6 Table 3.26.1 and Table 3.26.2 below provide a summary of the key 2022–23 departmental and administered estimated financial statements items.

Table 3.26.1: Key expenses and total own-sourced income

Expenses and own-source income	Departmental budget (\$m) 2022–23	Administered budget (\$m) 2022–23
Total expenses	4,304.3	21,481.8
Employee benefits	2,274.7	–
Suppliers	1,599.0	–
Depreciation and amortisation	416.7	–
Subsidies	–	11,689.3
Personal benefits	–	983.4
Penalty and Interest charge remission	–	1,375.0
Write-down and impairment of assets	–	6,727.0
Interest	–	95.0
Other	13.9	13.1
Superannuation guarantee charge	–	593.0
Unclaimed superannuation monies interest	–	6.0
Total own-source income	134.8	553,407.8
Sale of goods and rendering of services	104.4	–
Income tax	–	434,697.5

142 *Supply Act (No. 1) 2022–2023; Supply Act (No. 2) 2022–2023; Supply Act (No. 3) 2022–2023; Supply Act (No. 4) 2022–2023; Appropriation Act (No. 1) 2022–2023; and Appropriation Act (No. 2) 2022–2023.*

143 Part 1: Budget Estimate 2022–23, Special Appropriations Table, *Agency Resourcing, Budget Paper No. 4, 2022–2023.*

Expenses and own-source income	Departmental budget (\$m) 2022–23	Administered budget (\$m) 2022–23
Indirect tax	–	115,220.0
Other taxes	–	3,259.8
Unclaimed superannuation Monies	–	214.0
Rental income	12.4	–
Other	18.0	16.5
Net (cost of)/contribution to services	(4,169.5)	531,926.0

Source: The ATO's 2022–23 budget as reported in the 2022–23 Portfolio Budget Statements.

Table 3.26.2: Key assets and liabilities

Assets and liabilities	Departmental budget (\$m) 2022–23	Administered budget (\$m) 2022–23
Total assets	2,387.5	56,650.2
Cash and cash equivalents	34.9	544.8
Trade and other receivables	441.7	–
Non-financial assets	1,910.9	–
Taxation receivables	–	39,067.5
Accrued revenues	–	16,703.6
Other	–	334.3
Total liabilities	2,145.1	12,306.4
Suppliers	214.2	–
Employees	60.7	–
Other payables	4.8	–
Employee provisions	716.9	–
Subsidies payable & provision	–	5,157.8
Taxation refunds due payable	–	1,939.4
Superannuation guarantee charge payable and provision	–	877.1
Superannuation holding account payable	–	85.4
Personal benefits payable and provision	–	1,082.9
Income taxation and indirect taxation refund provision	–	2,352.5
Other provisions	24.5	811.3
Leases	1,124.0	–
Net assets	242.4	44,343.8

Note: The ATO's estimated average staffing level for 2022–23 is 19,693.

Source: The ATO's 2022–23 budget as reported in the 2022–23 Portfolio Budget Statements.

Key areas of financial statements risk

3.26.7 The ANAO undertakes appropriate audit procedures on all material items and focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. The ANAO also assesses the information technology (IT) general and application controls for key systems that support the preparation of the ATO's financial statements. Areas highlighted for specific audit coverage in 2022–23 are provided below in Table 3.26.3.

Table 3.26.3: Key areas of financial statements risk

Relevant financial statements line item	Key area of risk	Audit risk rating	Factors contributing to risk assessment
<i>Administered</i> income tax \$434,697.5 million indirect tax \$115,220.0 million other taxes \$3,259.8 million total expenses \$21,481.8 million	Accuracy of taxation revenue KAM Accuracy of expenses	Higher	<ul style="list-style-type: none"> complexity and judgement involved in the reliable estimation of taxation revenue due to uncertain timing of tax return assessments, payments and forecasting of likely taxation revenue outcomes; significant judgement when selecting the appropriate base and method for revenue recognition; completeness, relevance and accuracy of source data used in developing taxation revenue estimates; and estimation involves consideration of historical taxpayer behaviours together with assumptions about economic factors such as future wage growth, and gross domestic product.
<i>Administered</i> taxation receivables \$39,067.5 million	Valuation of taxation receivables and provisions for refunds KAM	Higher	<ul style="list-style-type: none"> complex methodologies and assumptions underpinning the calculation and assessment of the recoverability of taxation receivables, and the calculation of the provisions for refunds; estimate methodologies are based on assumptions including taxpayer compliance and lodgement history, the existence of dispute over a receivable and the taxpayer's capacity to pay. Models use historical data to predict future taxpayer behaviour; and completeness, relevance and accuracy of source data used in estimating balances.

Relevant financial statements line item	Key area of risk	Audit risk rating	Factors contributing to risk assessment
<i>Administered</i> income tax \$434,697.5 million indirect tax \$115,220.0 million other taxes \$3,259.8 million	Completeness of taxation revenue and the ATO's compliance and risk management processes relating to the collection of taxation revenue	Higher	<ul style="list-style-type: none"> reliance on information provided by taxpayers in a self-assessment and voluntary compliance regime for a significant value of revenue transactions; the effectiveness of the design and implementation of the compliance risk management regime that reduces the risk that inappropriate taxation returns may not be detected and corrected by the ATO, which makes the deterrence of tax evasion more effective; and judgements associated with the risk management approach to compliance programs.
<i>Administered</i> All financial statements line items	Accuracy and completeness of balances due to the ATO's complex IT business systems and associated processing of taxpayer returns and statements	Higher	<ul style="list-style-type: none"> large and complex IT environment with several hundred business applications processing a high volume of transactions through many IT systems that are bespoke of heavily customised to the ATO; and reliance on bespoke reports to extract large volume and complex data from IT systems for the calculation of balances used in the preparation of the financial statements.
<i>Administered</i> All financial statements line items	Completeness and accuracy of data required for financial reporting purposes due to complex manual processes for compilation of data	Moderate	<ul style="list-style-type: none"> manual calculation of complex information in spreadsheets increases the risk of miscalculation due to data linkages and human error.

Source: ANAO 2022–23 risk assessment, and the ATO's budgeted financial statements for the year ended 30 June 2023.

3.26.8 The ANAO also considers the results of recent performance audits in identifying risks and designing an approach for the financial statements audit.

3.26.9 Auditor-General Report No.9 2022–23 *Management of Cyber Security Supply Chain Risks* was tabled during 2022–23 and the observations of this report were considered in assessing the cyber security risks related to the financial statements audit and designing audit procedures to address identified risks.

Audit results

3.26.10 The ANAO has completed its 2022–23 interim audit coverage, including an assessment of the controls relating to the ATO’s business operations which incorporated the ATO’s key financial administration systems and its key revenue collection processes.

3.26.11 Audit procedures relating to the ANAO’s interim audit coverage included an assessment of the ATO’s IT general controls. The assessment included a review of: logical security, management and controls over changes and releases in the ATO’s key business systems. Audit procedures are currently in progress over: cash; appropriations; special accounts; asset management; payroll processing; suppliers’ expenses; leases; taxes¹⁴⁴; excise; super guarantee charge; penalties and interest; and settlements.

3.26.12 The ANAO will finalise the assessment of the complex manual processes for financial reporting, coverage over the ATO’s external compliance program, administered estimates and receivables and impairment as part of the 2022–23 final audit. The ANAO will also conduct further testing on the effective operation of the ATO’s IT application controls during the 2022–23 final audit.

3.26.13 The following table summarises the status of audit findings as at the end of the 2022–23 interim audit as reported by the ANAO.

Table 3.26.4: Status of audit findings raised by the ANAO

Category	Closing position (2021–22 final)	New findings (2022–23 interim)	Resolved findings (2022–23 interim)	Closing position (2022–23 interim)
B	2	–	1 ^a	1
Total	2	–	1	1

Note a: The moderate audit finding relating to ATO assurance over extracts of data has been downgraded to a minor audit finding.

Resolved moderate audit finding

ATO assurance over extracts of data

3.26.14 Reports from ATO systems are extracted by running queries written in structured query language (SQL). The completeness and accuracy of these SQLs are reliant upon a set of controls surrounding development, maintenance and execution of the queries to ensure that underlying systems, if changed or amended, do not adversely affect the operation of queries. These controls are evidenced by the ATO in assurance statements provided to the ANAO as part of the financial statements audit.

3.26.15 In 2021–22, the ANAO identified system changes that had not been reflected in the assurance statements provided to support data assurance testing over relevant SQLs. This resulted in two incomplete datasets being provided to the ANAO.

3.26.16 During the 2022–23 interim audit, the ANAO reviewed the ATO’s implementation of process improvements in relation to assurance over data extracts provided to the ANAO. The ANAO has confirmed that the assurance statements provided by the ATO for the interim audit incorporate

144 Tax audit work includes income tax, fringe benefits tax, petroleum resource rent tax and goods and services tax.

all system changes. However, the ATO's documentation of its overarching framework has not been finalised. As a result of remediation activities undertaken, the ANAO has downgraded the audit finding to a minor audit finding, pending finalisation of the documented framework. This will be reviewed by the ANAO during the 2022–23 final audit.

Unresolved moderate audit finding

Uneconomic to pursue debt and re-raises

3.26.17 In 2021–22, the ANAO identified issues associated with the ATO's treatment of debts considered to be uneconomical to pursue (non-pursued debt). These included:

- the timeframe where the automatic re-raise functionality was switched off that resulted in the ATO not re-raising debts that had previously been identified as uneconomical to pursue where the taxpayer became entitled to a credit; and
- the use of exclusionary criteria that had the effect of preventing a re-raise on a taxpayer's account for non-pursued debt that met certain criteria.

In both cases, there was a potential effect of a taxpayer being able to receive a full credit despite having a debt owed to the Commonwealth. At the end of the 2021–22 final audit, system offsetting of credits against non-pursued debt had recommenced.

3.26.18 During the 2022–23 interim audit, the ATO commenced a project to remove exclusionary criteria by 30 June 2023. The ANAO will review this project's progress against key milestones during the 2022–23 final audit.

Conclusion

3.26.19 At the completion of the interim audit, and except for the finding outlined above, the ANAO identified that key elements of internal control were operating effectively to provide reasonable assurance that the ATO will be able to prepare financial statements that are free from material misstatement. The effective operation of these controls for the full financial year will be assessed in conjunction with additional audit testing during the 2022–23 final audit.

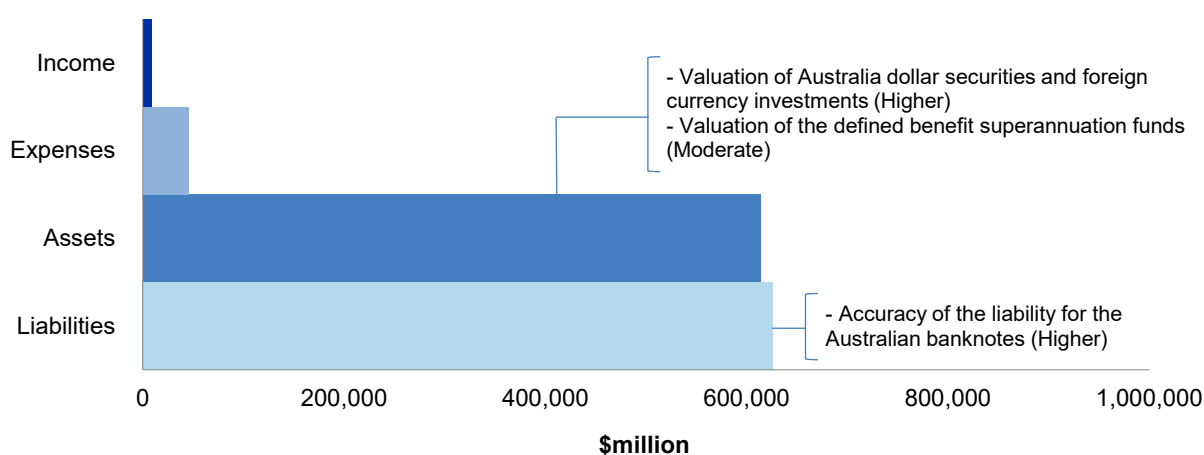
3.27 Reserve Bank of Australia

Overview

3.27.1 The objectives of the Reserve Bank of Australia (RBA) are to determine and implement monetary policy that contribute to the stability of the currency and maintain full employment, work to maintain a strong financial system and efficient payments system and issue the nation's banknotes. As well as being a policymaking body, the RBA provides selected banking services to a range of Australian Government entities and to a number of overseas central banks and official institutions. The RBA is also responsible for the management of Australia's gold and foreign exchange reserves.

3.27.2 Figure 3.27.1 below shows the 2021–22 financial statements items reported by Reserve Bank of Australia and the key areas of financial statements risk.

Figure 3.27.1: Key financial statements items and areas of financial statements risk



Source: ANAO analysis and RBA's audited financial statements for the year ended 30 June 2022.

3.27.3 The ANAO's audit approach identifies key areas of risk that have the potential to impact on RBA's financial statements. The ANAO's risk assessment process considers the nature of the financial statements items and an understanding of RBA's environment and governance arrangements, including its financial reporting regime and system of internal control.

3.27.4 In light of the key areas of risk and the ANAO's understanding of the operations of RBA, the ANAO has assessed the overall risk of material misstatement in the 2022–23 financial statements audit as moderate.

Key financial statements items

3.27.5 RBA does not receive any annual appropriation funding. The operational functions of RBA are funded from the following sources: net interest income earnings and fees and commission income.

3.27.6 Table 3.27.1 and Table 3.27.2 below provide a summary of the key 2022–23 departmental and administered estimated financial statements items.

Table 3.27.1: Key expenses and total own-sourced income

Expenses and own-source income	Actual (\$m) 2021–22
Total expenses	45,559
Net loss on securities and foreign exchange	44,898
General administrative	470
Other	191
Total own-source income	8,859
Net interest income	8,458
Fees and commission	376
Other	25
Net (loss)	(36,700)

Source: RBA 2021–22 audited financial statements.

Table 3.27.2: Key assets and liabilities

Assets and liabilities	Actual (\$m) 2021–22
Total assets	613,774
Cash and cash equivalents	482
Australian dollar investments	538,142
Foreign currency investments	66,497
Gold	6,772
Property, plant and equipment	744
Other	1,137
Total liabilities	626,217
Deposits	513,757
Distribution payable to the Commonwealth	-
Australian banknotes on issue	102,345
Other	10,115
Net (liabilities)	(12,443)

Note: RBA staffing level at 30 June 2022 was 1,428 including non-ongoing contractors and excluding Note Printing Australia Limited as reported in the 2021–22 annual report.

Source: RBA 2021–22 audited financial statements.

Key areas of financial statements risk

3.27.7 The ANAO undertakes appropriate audit procedures on all material items and focuses audit effort on those areas that are assessed as having a higher risk of material misstatement. The ANAO also assesses the information technology (IT) general and application controls for key systems

that support the preparation of RBA's financial statements. Areas highlighted for specific audit coverage in 2022–23 are provided below in Table 3.27.3.

Table 3.27.3: Key areas of financial statements risk

Relevant financial statements line item	Key area of risk	Audit risk rating	Factors contributing to risk assessment
Australian dollar investments \$538,142 million foreign currency investments \$66,497 million net loss on securities and foreign exchange \$44,898 million	Valuation of Australian dollar securities and foreign currency investments KAM	Higher	<ul style="list-style-type: none"> complexity in determining the fair value of a range of investments and securities; and significant financial impact from any fluctuations in the valuation of the Australian dollar.
Australian banknotes on issue \$102,345 million	Accuracy of the liability for the Australian banknotes	Higher	<ul style="list-style-type: none"> accuracy of the liability for Australian banknotes on issue is dependent on the assumption that legal tender status is retained by all Australian notes on issue; and significant financial impact from any fluctuations in the value of the Australian dollar supply and security of banknotes.
Superannuation assets (a component of other assets \$1,137 million) superannuation reserve \$828 million	Valuation of the defined benefit superannuation funds	Moderate	<ul style="list-style-type: none"> estimation uncertainty in the selection of parameters used and assumptions made in the valuation of the superannuation fund.

Source: ANAO 2022–23 risk assessment, and RBA's audited financial statements for the year ended 30 June 2022.

Audit results

3.27.8 The ANAO has completed its 2022–23 interim audit coverage, including an assessment of the controls relating to: the initiation, authorisation, settlement and recording of Australian dollar investments and foreign currency investments; the return and issuance of Australian banknotes on issue; and the design and implementation of IT general controls.

3.27.9 Audit procedures relating to superannuation and unsettled purchases of securities and testing of IT general and application controls will be undertaken as part of the planned 2022–23 final audit.

3.27.10 To date, our audit coverage of the above areas has not identified any new significant or moderate audit findings.¹⁴⁵

Conclusion

3.27.11 Based on our audit coverage to date, key elements of internal control were operating effectively to provide reasonable assurance that RBA will be able to prepare financial statements that are free from material misstatement. The effective operation of these internal controls for the full financial year will be assessed during the 2022–23 final audit.



Grant Hehir
Auditor-General

Canberra ACT
25 May 2023

¹⁴⁵ The 2021–22 audit also did not identify any significant or moderate audit findings.

Appendices

Appendix 1 Listing of entities by portfolio

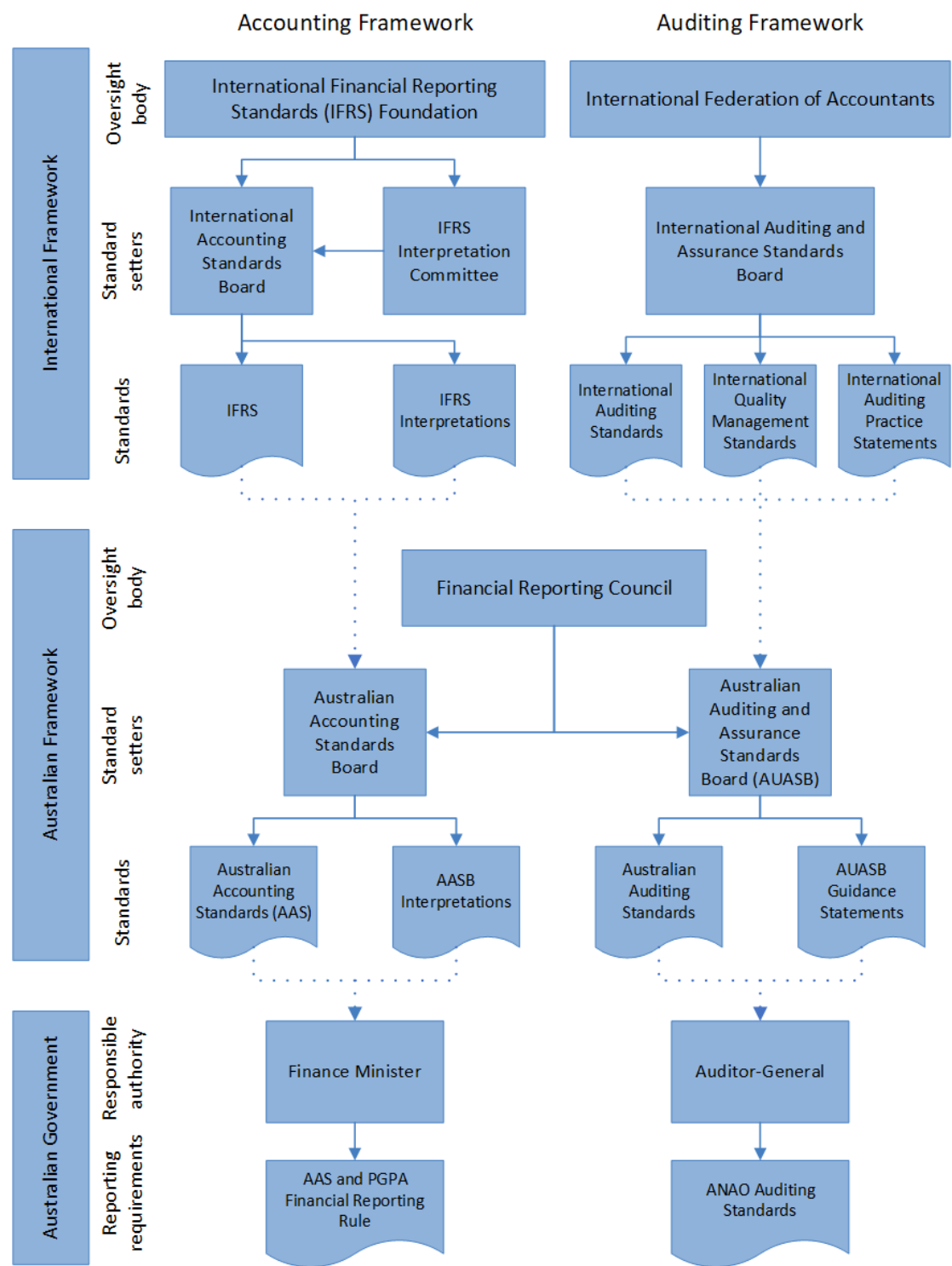
1. The following entities have been considered in this report, selected on the basis of their contribution to the income, expenses, assets and liabilities within the consolidated financial statements. These include all departments of state and a number of major Australian government entities.¹⁴⁶ The National Indigenous Australians Agency is also included in this report given the role it plays working across government with indigenous communities and stakeholders.
2. The entities are presented in order of portfolio.
 - Department of Agriculture, Fisheries and Forestry
 - Attorney-General's Department
 - Department of Climate Change, Energy, the Environment and Water
 - Snowy Hydro Limited
 - Department of Defence
 - Department of Veterans' Affairs
 - Department of Education
 - Department of Employment and Workplace Relations
 - Department of Finance
 - Future Fund Management Agency
 - Department of Foreign Affairs and Trade
 - Department of Health and Aged Care
 - Department of Home Affairs
 - Department of Industry, Science and Resources
 - Department of Infrastructure, Transport, Regional Development, Communications and the Arts
 - Australian Postal Corporation
 - NBN Co Limited
 - Department of Parliamentary Services
 - Department of the Prime Minister and Cabinet
 - National Indigenous Australians Agency
 - Department of Social Services
 - National Disability Insurance Agency
 - Services Australia
 - Department of the Treasury
 - Australian Office of Financial Management
 - Australian Taxation Office
 - Reserve Bank of Australia

¹⁴⁶ Including two departments created effective 1 July 2022: Department of Climate Change, Energy, the Environment and Water; and the Department of Employment and Workplace Relations.

Appendix 2 The financial reporting and auditing standards frameworks for 2022–23

- The figure below depicts the standard setting framework for financial reporting and auditing, in the Australian Government context.

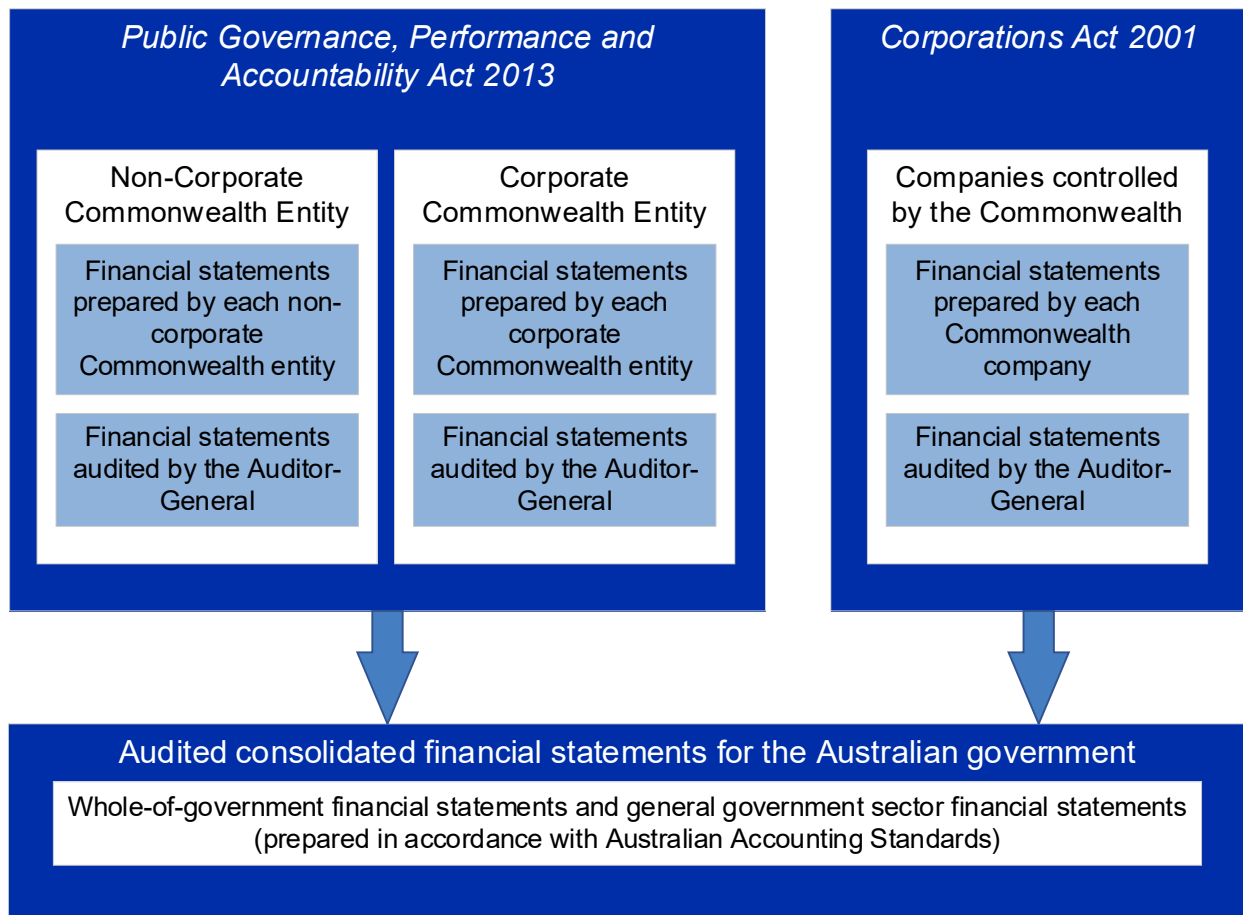
Figure A.1: Australian Government standard setting framework



Appendix 3 The financial reporting and auditing framework for the 2022–23 financial statements

1. Key elements of the Australian Government’s financial reporting and auditing framework are outlined in the figure below.

Figure A.2: Australian Government financial reporting framework



Source: ANAO compilation.

Australian Government reporting entities

Commonwealth Government of Australia

2. Section 48 of the PGPA Act requires the Minister for Finance to prepare annual consolidated financial statements and give the statements to the Auditor-General.
3. The PGPA Act prescribes Australian Accounting Standards (AASs) and any other requirements prescribed by the PGPA rules, as the applicable financial reporting framework for the preparation of annual consolidated financial statements.

Commonwealth entities

4. Section 11 of the PGPA Act determines that there are two types of Commonwealth entities: a non-corporate Commonwealth entity, which is a Commonwealth entity that is not a body corporate¹⁴⁷; and a corporate Commonwealth entity, which is a Commonwealth entity that is a body corporate and legally separate from the Commonwealth.
5. Section 41 of the PGPA Act requires the accountable authority of a Commonwealth entity to maintain records, internal controls, procedures and processes that comply with the PGPA rules and support the preparation of financial statements.
6. Section 42 of the PGPA Act requires the accountable authority of a Commonwealth entity to prepare annual financial statements that comply with the AAS and any other requirements prescribed by the PGPA rules.

Commonwealth companies and subsidiaries

7. Commonwealth companies are companies that are controlled by the Australian Government through majority share holdings, voting rights, or via control over the composition of the company's board. Commonwealth companies operate and prepare financial statements under the *Corporations Act 2001* (Corporations Act).
8. The applicable financial reporting framework for Commonwealth companies is the *Corporations Act*, including the AASs and the Corporations Regulations.
9. The Directors of a Commonwealth company, or a company that is a subsidiary of either a Commonwealth entity or a Commonwealth company, are responsible for the preparation of financial statements that give a true and fair view and for maintaining records, internal controls, procedures and processes that support the preparation of the financial statements.

Other bodies

10. The ANAO audits the financial statements of other bodies under Commonwealth legislation other than the PGPA Act, including the 'by arrangement' provisions in section 20 of the *Auditor-General Act 1997*. Examples of these other bodies include statutory bodies not established as Commonwealth entities or trusts. The financial reporting framework applicable to these other bodies depends on legislation and rules that govern that entity.

Audit of Australian Government entity financial statements

11. The ANAO undertakes audit procedures over the financial statements and the systems and processes used for the preparation of the financial statements. Once this audit work is completed, the ANAO will form an opinion on whether the financial statements are free from material misstatement, comply with applicable accounting standards and any other

¹⁴⁷ Three entities have a body corporate status but are prescribed as non-corporate Commonwealth entities. These are the Australian Competition and Consumer Commission; the Australian Prudential Regulation Authority; and the Australian Securities and Investments Commission.

rules, and present fairly the financial position, financial performance and cashflows of the entity. These audit procedures are conducted in accordance with the ANAO Auditing Standards, which incorporate the Australian Auditing Standards and provide reasonable assurance that the entities have prepared financial statements that are free of material misstatement.

Audit scope

12. Audit procedures include an examination of the entity's records and its internal controls, information systems, control procedures and statutory disclosure requirements. Evidence supporting the amounts and other information in the statements is examined on a test basis, and the entity's accounting policies and significant accounting estimates are evaluated.
13. Responsibility for the prevention and detection of fraud and error within the entity rests with those charged with the accountable authority and the management of the entity. The auditor is not responsible for the prevention or detection of fraud and error.

The auditor's report on financial statements

14. The ANAO auditor's report on the financial statements includes a statement of the auditor's opinion as to whether the financial statements present fairly the entity's financial position, the results of its operations and its cash flows in accordance with the applicable financial reporting framework. The audit opinion can be presented in different forms and the auditor's report may draw to the reader's attention other matters.

Form of auditor's opinion

15. An auditor's opinion is described as 'unmodified' when the auditor concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.
16. An auditor's opinion may be 'modified' in one of three ways:
 - A 'qualified opinion' is expressed when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in aggregate, are material but not pervasive to the financial statements. A 'qualified opinion' is also expressed when the auditor, having been unable to obtain sufficient appropriate audit evidence, concludes that the possible effects on the financial statements of undetected misstatements could be material but not pervasive.
 - A 'disclaimer of opinion' is expressed when the auditor, having been unable to obtain sufficient appropriate audit evidence on which to base the opinion, concludes that the possible effects on the financial statements of undetected misstatements could be both material and pervasive. A 'disclaimer of opinion' is also expressed when the auditor, having been able to obtain sufficient appropriate audit evidence regarding individual uncertainties, concludes that the potential interaction of the uncertainties and their possible cumulative effect on the financial report cannot be determined.

- An 'adverse opinion' is expressed when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements individually or in aggregate, are both material and pervasive to the financial statements.

Emphasis of matter

17. An 'emphasis of matter' paragraph is included in the auditor's report when the auditor considers it necessary to draw to users' attention a matter presented in the financial statements that, in the auditor's judgement, is of such importance that it is fundamental to the users' understanding of the financial statements. The circumstances in which an emphasis of matter is used include:
 - when financial statements and the auditor's report have been issued and a fact is discovered that leads to revised financial statements and a new auditor's report being prepared; and
 - when financial statements have been prepared in accordance with a special purpose framework, and as a result the financial statements may not be suitable for another purpose.

Other matter

18. The auditor's report on the financial statements may also include a reference to an 'other matter'. This allows the auditor to communicate a matter other than a matter that is presented or disclosed in the financial statements that, in the auditor's judgement, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

Material uncertainty related to going concern

19. The auditor's report on the financial statements will also include a reference to a 'material uncertainty related to going concern' when there are possible or actual events or conditions that may cast significant doubt on an entity's ability to continue as a going concern and the financial statements include adequate disclosure about the uncertainty and management's plans to deal with the uncertainty.

Report on other legal and regulatory requirements

20. The auditor's report on the financial statements may also include a report on other legal and regulatory requirements. This report covers matters that the Auditor-General is required by law to report on in conjunction with the financial statements audit.